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Roubini Sees 'Nowhere to Hide' From Global Slowdown (Update2)

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By Betty Liu and Eric Martin



Jan. 27 (Bloomberg) -- Global stock market declines are increasingly correlated and emerging economies will follow developed nations into a "severe recession," according to New York University Professor [Nouriel Roubini](#).

Roubini said economic growth in China will slow to less than 5 percent and the U.S. will lose 6 million jobs. The American economy will expand 1 percent at most in 2010 as private spending falls and unemployment climbs to at least 9 percent, he added.

"There is nowhere to hide," Roubini, an economics professor at NYU's Stern School of Business who predicted the financial crisis, said from Zurich in an interview with Bloomberg Television. "We have for the first time in decades a global synchronized recession. Markets have become perfectly correlated and economies are also becoming perfectly correlated. This is not your kind of traditional minor recession."

Roubini said the U.S. government should nationalize the biggest banks because losses will exceed assets, threatening to push them into bankruptcy. The banks could be privatized again in two or three years, Roubini said. The professor reiterated his prediction that U.S. financial losses will more than triple to \$3.6 trillion and that global equities will fall 20 percent this year from current levels.

'Zombie Banks'

"Nobody's in favor of long-term ownership of the U.S. banking system by the government, but if you don't do it this way, you end up like Japan where you kept alive for a decade zombie banks that were never restructured," he said. "That's going to be much worse. It's better to clean it up, nationalize it and sell it to the private sector."

Japanese policy makers hesitated in addressing a banking crisis in the 1990s and then struggled to revive growth and fight deflation in what is known as the "Lost Decade."

Roubini recommended holding cash or short-term government debt and said high-yield bonds are cheap relative to U.S. stocks.

In July 2006, Roubini predicted the financial crisis. In February of last year, he forecast a "catastrophic" meltdown that central bankers would fail to prevent,

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leading to the bankruptcy of large banks with mortgage holdings and a “sharp drop” in equities. Since then, Bear Stearns Cos. was forced into a sale and Lehman Brothers Holdings Inc. went bankrupt, prompting banks to hoard cash and depriving businesses and households of access to capital.

Deeper Into Recession

The world’s biggest economies are sliding deeper into recession as the fall-out from the global financial crisis hobbles manufacturing output and punctures consumer spending from New York to Beijing. The U.S. economy probably contracted at 5.5 percent pace in the fourth quarter, the fastest in 26 years, a survey of economists showed.

[Caterpillar Inc.](#), Sprint Nextel Corp., Home Depot Inc. and ING Groep NV led companies announcing at least 77,000 job cuts yesterday as sales withered while U.S. jobless claims touched a 26-year high of 589,000 in the week ended Jan. 17. President [Barack Obama](#) is pushing congress to approve an \$825 billion stimulus package to create 3 million to 4 million new jobs.

In China, the urban unemployment rate, which doesn’t include millions of migrant workers, rose for the first time since 2003 in the fourth quarter. The government is targeting a rate of 4.6 percent for the year, which would be the highest since 1980. The slowdown may destabilize the country’s communist government, [Albert Edwards](#), a strategist at Societe Generale in London, said in a Jan. 15 research note.

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