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The World A Decade after the Lehman Collapse

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

A decade has passed since the Lehman Collapse rattled the world. On September 15, 2008, Lehman Brothers, then the fourth largest U.S. investment bank, went bankrupt, filing a petition with a federal court for protection under Chapter 11 of the Bankruptcy Code. In the United States, a housing bubble collapsed around 2007, leading to the so-called “subprime loan problems”, which plunged some financial institutions into a serious financial crisis. As Lehman Brothers was plagued with massive liabilities at that time, other financial institutions and the federal government considered measures to salvage the investment bank. However, as no agreement came on such measures, the United States saw the largest bankruptcy in its history with liabilities totaling some $600 billion.

Because of its large size, its great spillover impact on business/trading partners of Lehman Brothers and post-bankruptcy measures’ failure to keep up with market developments, the Lehman Brothers bankruptcy rapidly developed into a financial crisis including a stock market crash. On October 3, then President George W. Bush signed into law the Emergency Economic Stabilization Act of 2008 calling for injecting $700 billion into the financial system to stabilize financial markets. However, the act failed to prevent the crisis from deepening. The Dow Jones average on the New York Stock Exchange plunged below 9,000 in October and below 8,000 in November, from levels above 11,000 before the Lehman Brothers bankruptcy. As the stock market crash continued with the financial crisis deepening, the stock average hit a low of 6,594 on March 5, 2009, plunging as much as 53% from the pre-crisis high of 14,165 on October 9, 2007.

The financial market chaos and slump rapidly chilled the real U.S. economy. After growing 1.8% in 2007, U.S. GDP contracted 0.03% in 2008 and 2.8% in 2009, indicating a serious recession. The unemployment rate shot up from levels below 5% to 10%, forcing the U.S. economy to face a serious crisis. Thus, the reconstruction and revival of the U.S. economy were a top priority challenge for the Obama administration inaugurated in January 2009. However, the slump was not limited to the U.S. economy and financial markets, which are the largest in the world. The crisis spilled over throughout the world. Stocks plunged in all major markets, leading to global economic growth deceleration, recession and unemployment rate increases. Truly, the Lehman Collapse rattled the world.

A decade after the Lehman Collapse, newspapers, TV stations and other media organizations took up the collapse, reviewing what happened then and how the world responded to the collapse and considering whether a financial crisis could hit the world economy again. These actions may be significant for remembering the experience of the real past crisis and preventing such experience from being forgotten. Behind the controversy about the Lehman Collapse is a view that a good rule of thumb indicates a global financial crisis comes almost every 10 years.

The economy expands and is overheated before entering an adjustment phase. As shown by history, the greater the expansion or overheating is, the greater the repercussion is. If a repercussion comes and works rapidly, a bubble may collapse. While watching the present global economy, policymakers, financial market payers, businesspersons, media people, experts and other stakeholders now have great interests in the future course of the world.

Surely, the global economy has so far or recently grown or expanded steadily at a cruising speed. The latest "World Economic Outlook" by the International Monetary Fund (IMF) predicts that the global economy would grow by a robust 3.9% each in 2018 and 2019. Even in the United States where the Lehman Collapse originated, the unemployment rate has fallen to around 4%, indicating a situation close to full employment. The IMF outlook predicts U.S. GDP growth at 2.9% in 2018 and 2.7% in 2019, the highest among the OECD countries. The Dow Jones average stands at as high as about 26,000. As noted above, however, some people seem concerned about the ongoing economic expansion's repercussion.

When considering the future course of the global economy, we cannot ignore the escalating trade war. The escalation of the trade war between the United States as the world's largest economy and China as the second is now likely to continue instead of stopping. The United States has already levied an additional 25% tariff on $50 billion worth of Chinese imports. In response, China has reciprocally imposed a similar tariff on U.S. imports of the same value. Washington is taking procedures to levy an additional tariff on $200 billion worth of Chinese imports, inviting global attention to when President Donald Trump would implement the tariff. Furthermore, President Trump has indicated an additional levy on $267 billion worth of Chinese imports. The overall total exceeds $510 billion, demonstrating that all Chinese imports into the United States would be subject to an additional tariff. Beijing may be forced to take counteraction in some manner.

The trade war escalation is destined to exert great negative effects not only on the two countries but also on the global economy. In China, particularly, the trade war escalation has brought about a Shanghai stock market slump and the Chinese yuan's devaluation, making the future course of the Chinese economy more uncertain. China overcame the impact of the Lehman Collapse with a 4 trillion-yuan economic stimulus package, serving as a global growth engine. After shifting to a "New Normal" economy, however, China is now shaken by the trade war. The future course of the Chinese economy is now an unprecedentedly important factor for forecasting the future global economy.

Global economic stagnation or deceleration after the Lehman Collapse exerted a massively deep impact on international politics, the global economy and the international society, leading to a great change in global governance. The impact affected the international energy market as a matter of course. Usually, global economic demand continues expanding under economic and population growth. In 2009, however, global primary energy consumption shrank 1.3%. This was the first shrinkage in 27 years since global primary energy consumption decreased in 1982 affected by the impacts of the second oil crisis. As energy demand declined, the benchmark West Texas Intermediate crude oil price (a front-month futures contract's daily closing price) plunged from a high of $145.29 per barrel in 2008 to $33.87/bbl on December 19, 2008. The international energy market was directly exposed to the Lehman Collapse impact.

A decade after the Lehman Collapse, the stability and fate of the global economy and financial markets still remain the most important factor for forecasting the future global energy market. Future global economic developments will remain worthy of close attention.

Contact: report@tky.ieej.or.jp
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