Stocks are on track for their worst year since 1937

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WASHINGTON — Fear and foreboding took hold Thursday on Wall Street, as the market again plunged and investors became convinced that the nation is on the verge of a deep and prolonged recession. The decline continued in Asia, where stocks plummeted in early trading today.

The government took steps toward an extraordinary public investment in U.S. banks and General Motors' stock fell to its lowest price since 1950 on fears it will not be able to weather the downturn. Share prices fell across every industry and for each of the 30 stocks in the Dow Jones industrial average, which was down 678.91, or 7.3 percent, at 8,579.19. The declines came on the one-year anniversary of the Dow's closing high.

"I've never seen a panic like this," said David Wyss, chief economist at Standard & Poor's. "I've seen stock market drops, but not an overall panic."

The plunge came in a stomach-churning 90 minutes. The Dow was down just 140 points in the early afternoon. But then, wave after wave of selling began to roll through the market.

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"It's a domino effect. Stocks are falling out of bed. There is distrust in the market and distrust in the government that is trying to heal this," said Peter Cardillo, economist with New York-based Avalon Partners.

Continuing its efforts to stanch the damage, the Bush administration said Thursday that it is working on a plan to inject government cash into some of the nation's troubled banks. Meanwhile, global economic policymakers are gathering in Washington today for the International Monetary Fund and World Bank annual meetings, and will try to find coordinated responses.

President Bush is scheduled to make a statement about the crisis this morning in the Rose Garden, the White House said late Thursday. He also will take the unusual step of meeting with finance ministers from the Group of Seven industrialized countries Saturday.

Press secretary Dana Perino said Bush would "assure the American people that they should be confident that economic officials are aggressively taking every action to stabilize our financial system."

While the stock market was the most visible sign of the distress, a more significant one may have been a rise in interest rates for short-term lending among banks. The spike came despite Wednesday's cut in the target interest rate of the world's major central banks, suggesting that banks are more fearful than ever of lending to each other.

Credit markets provided modest good news, however, as the interest rates dropped on commercial paper, a form of debt that companies use to finance short-term cash flow. The Federal Reserve announced a new program to take on that debt Tuesday.

Some of the worst damage was among U.S. automakers. J.D. Power and Associates said that the global auto industry may experience an "outright collapse" in 2009. Then the S&P Ratings Agency put GM debt on a credit watch. GM stock fell 31 percent to $4.76, its lowest since 1950, and Ford stock was down 22 percent.

No market patience Investors have become frustrated that the government's efforts to tackle the financial crisis, including plans to buy up billions in toxic mortgage debt and a global interest rate cut, have yet to loosen the credit markets.

The problem seems to be that many of the government actions, such as the $700 billion U.S. financial system bailout passed a week ago, take time to go into effect. "These programs take weeks if not months to implement, and the market is responding within minutes," said Diane Swonk, chief economist at Mesirow Financial.

Meanwhile, darker clouds have moved to new parts of the economy. Trouble in sectors like steel production and heavy machinery, which until recently were growing strongly, has contributed to the mounting view that the U.S. economy has tumbled into a significant recession. Economists predict that the economy will contract until the middle of 2009.

There is a bright spot for American consumers: Oil prices also continued a steep two-month decline Thursday, falling $2.36 to settle at $86.59 a barrel as traders bet that the slowing global economy will reduce demand for energy worldwide.

But even that was bad news for the stock market, as energy shares fell. Exxon Mobil and Chevron each fell 12 percent.

Consumers have cut back sharply on spending, in what will be the first quarterly decline in 17 years when the government tally is in for the third quarter.

To offset this shrinkage, the Democratic leadership in Congress is "seriously considering" a large fiscal stimulus proposal, which would send a significant amount of money to states and cities. "We have to prop up consumption," Rep. Barney Frank, D-Mass., the chairman of the House Financial Services Committee, said in an interview.

The new proposal would be far greater than the $60 billion stimulus package that the House passed in September, Frank said. The Senate has not acted on the earlier bill, which was dwarfed in attention and scope by the sums being pledged to Wall Street companies and commercial banks.

Some attribute Thursday's market plunge to mutual funds' waiting until mid-afternoon to execute sell orders from a growing number of investors who are cutting their exposure or bailing out of the market altogether. Others say that hedge funds, which have leveraged returns in recent years by using borrowed money, are having to sell holdings to raise collateral against their borrowings.

Still others say that computerized trading, which has grown significantly in recent years, often kicks in later in the day, when certain thresholds are breached.

Short-selling What happened on Thursday partly reflects the unintended consequences of regulators' attempts to bolster stock prices several weeks ago, when the Securities and Exchange Commission temporarily banned short-selling in nearly 1,000 stocks. That restriction was lifted at midnight on Wednesday. Short-selling is a practice in which investors sell shares they do not own in the hopes of buying them back later at a lower price. Many money managers use it to hedge their investments against future losses. Analysts said those investors were probably forced to sell shares short Thursday to protect themselves.

Robert Solow, who won a Nobel Prize in 1987 for his work on economic growth, said the "potential for instability was always there" but he is surprised at the magnitude of the problems. "I'm as puzzled as anyone else," he said. "I don't have any particular wisdom to sell."

The New York Times contributed to this report.
