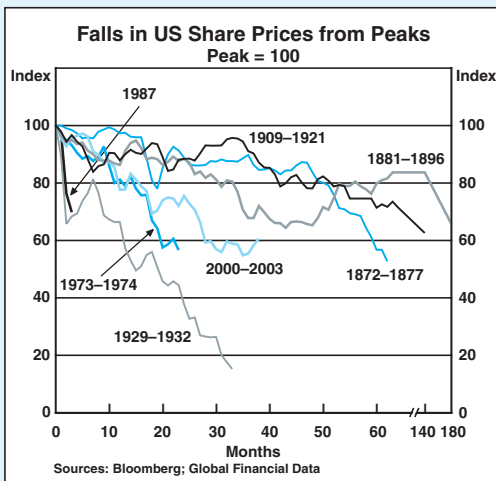


Box B: Global Equity Markets

March 2003 marked the third anniversary of the peak in global equity prices. Since then equity price indices in all the major countries have fallen significantly.

In the case of the US share market, prices have fallen by around 40 per cent from their peak in March 2000, though they are still around 45 per cent higher than in the mid 1990s. This fall is the largest retracement since the Great Depression of the early 1930s, when nominal prices fell by over 80 per cent. The most recent comparable nominal correction occurred in 1973–74 when the US S&P also fell by just over 40 per cent (Graph B1).

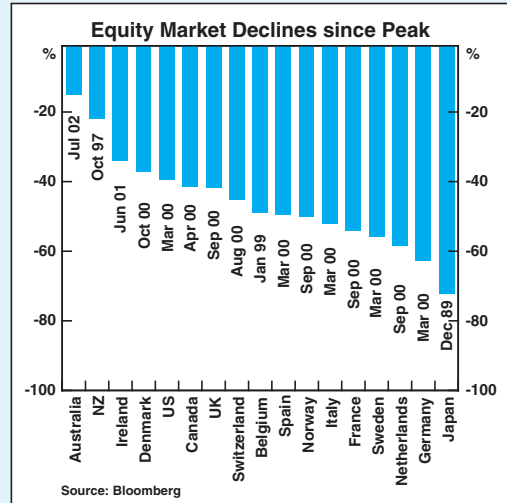
Graph B1



The current bear market is only the fifth time since 1870 that broad measures of US share prices have fallen for three or more consecutive calendar years. The market has only once fallen for four years in a row (1929–1932).

While the recent fall in US share prices has been large, the slump in most other major markets has been even more pronounced (Graph B2). In most European countries, share prices have fallen by between 50 and 70 per cent since their peak. However, these

Graph B2



share markets also generally experienced the largest increases in the second half of the 1990s (Table B1).

In the euro area, share price indices more than tripled over the second half of the 1990s. A factor contributing to this surge was the large weight of the financial and telecommunication sectors in European share markets compared with the US. To the extent that the largest increases were recorded in some of the smaller countries, this may also have reflected a build-up of ebullient expectations in Europe ahead of the introduction of the euro, with some of the smaller countries expected to benefit most from the introduction of the single currency. German share prices have been very weak in the latest downturn, owing mainly to the under-performance of German banks and insurance companies.

The experience of the UK has been somewhat different from the rest of Europe. In the UK, the increase in share prices in the second half of the 1990s was modest compared with the rest of Europe and the US. To a large degree this reflected the small

Table B1: Equity Prices
Percentage change

	Dec qtr 1995– Mar qtr 2000	Mar qtr 2000– Mar qtr 2003	Dec qtr 1995– Mar qtr 2003
US S&P 500	138	–39	44
Euro STOXX	223	–55	45
German Dax	236	–64	21
UK FTSE	79	–42	3
Australian ASX 200	50	–7	39
Japan Topix	14	–50	–43

Source: Bloomberg

number of information technology firms represented in the UK index. The fall in UK share prices since the 2000 peak, however, has been similar in size to that of the US. As a result, share prices in the UK are now only marginally above where they were in the middle of the 1990s.

In Japan, share prices are now down 73 per cent from their peak in December 1989. Even though Japanese share prices had already experienced a large fall by the time the US market started to decline in 2000, they have since fallen by more than the US market. ✎