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HOW LONG WILL THE U.S. ECONOMY STAY IN THE DUMPS ?
TARGET PREDICTS : NOT VERY LONG

The question that just about every economist on the face of this planet is asking, today, is, simply put: How long will the US economy stay in the dumps?

And the answer, in TARGET's opinion: Not very long, if the latest batch of economic statistics is anything on which to hang one's hat.

Here is TARGET's opinion:

The US Economy, In General

The pace of the downswing in the US economy is abating, relative to just 4 months ago.

During January and February, this year, statistics, relating to retail sales in the US, indicated that there had been an increase of about 1.10 percent, compared with the figures for December 2000.

In addition, non-farm payrolls rose by about 359,000 – 224,000 in January and another 135,000 in February.

In the services sector of the US economy, there has been an increase of about 210,000 new jobs, according the US Commerce Department.

The services sector has become increasingly important to the US economy, in the past decade, accounting, today, for about 65 percent of the Gross Domestic Product (GDP), up from about 60 percent of the GDP in 1989 (GDP = The total value of goods and services produced in a country over a period of time).

Further, the services sector of any economy is, generally, less strongly affected by cyclical fluctuations than demand, or the lack of demand, in other sectors of an economy.

It follows, therefore, that personal consumption and personal expenditure will have been much stronger in the first quarter than had, hitherto, been envisaged.

It will take the best part of a month before these statistics are compiled, analysed and published by the US Commerce Department and other US Government agencies, but, when they are made public, it is likely that equity markets will start to take heart at what some people may claim is a fast turn-about.

Equity Markets

In regard to equity markets, their respective performances remain a critical factor in the determination of private consumption, whether or not this is admitted, willingly.

US households' interest in equities, mostly US equities, is likely to have shrunk by about $US2,000 billion since March 2000.

In the middle of the 1999 calendar year, *'the wealth effect'*, to which this factor of equities, held by US households, is often referred, stood at about $US17,500 billion – which is still a long way from the 1991 figure of less than $US500 billion.

While the cumulative gains, earned by US households' wheeling and dealing on US equity markets, may have been pared by about one quarter, over all, compared with the June 1999 figure of about $US17,500 billion, it still represents a gain of about 3,500 percent over the period of about 9 years.

It should not be determined that the reduction in the wealth effect is curbing consumption in respect of long-term investors, although there must have been some effect for those households, holding equities for trading purposes, only.

US Industry

With regard to US industry, it seems clear that the downswing in US economic output, brought about by a slowing in demand for US-produced goods and services in many other economies of the world, in the main, a phenomenon that took hold in the latter part of 1999, is easing.

But, in the US, there is still strong consumer resistance to the making of fresh financial commitments on the part of industry, as well as end-users.

In housing, the amount of residential development in the US appears to be favourable and, despite the winter's cold spell, housing starts rose in January to an annually adjusted figure of 1.65 million units.

This amount of housing starts is not representative of a recession.

It would appear that the construction sector of the US economy has, probably, overcome the weak phase which, when first broadcast, appeared to frighten certain parties on Capital Hill.

Further, with the recent downward trend in US interest rates, it should favour this sector of the economy since end-users will look to take advantage in the weakness in interest rates, thus tending to push up prices in the primary and secondary housing market.

All of the above does not point to a recession in the US.

It would appear that, should TARGET's prognostications prove accurate, the indications of a turnabout in the US economy should take hold in the second half of this year, or the third quarter, at the latest, all things being equal, of course.

One must bear in mind, also, that the economic factors of the year 2001 are vastly different from the economic factors of the last major downturn in the US, back in 1990 and 1991.

In the US, the general economic and financial environment is conducive to fast economic turnabouts, in similar fashion to the fast pace of technological advances, those advances having proved, from about 1992 up to 1998, that they are very capable of creating a huge number of new jobs as well as vast wealth, unseen in the history of the world: The Microsoft Corporation *'miracle'*, just to mention one shining example.

It would appear, conclusively, also, that the present US economic situation is but a hiccough -- a temporary economic slump, if you will.

Oil and Labour

Of course, TARGET's determination is based on the assumption that the US Federal Reserve will be proactive in its approach to the US economy; and, that it will continue to make the best use of its interest-rate weapon, lowering rates in the US as and when needs be determined.

TARGET's opinion, also, presupposes that US President George W. Bush will be able to push through his legislation to put more money into the pockets of the US, man-in-the-street via the tax-relief programme, introduced by him.

The Bill, now, faces the US Senate before being passed into law.

While, last Saturday, the Organisation of Petroleum Exporting Countries (OPEC) decided to cut back its production of crude oil by about one million barrels per day, the act was decided on the basis of trying to hold the price of crude oil to above the $US25 per barrel level.

This is a far cry from the $US30-plus per barrel price of 2000.

Therefore, it is clear that oil prices are unlikely to be a determinant in respect of US inflation, unless, of course, OPEC makes further, cuts or raises the price of crude oil, as the 11-member cartel has done in the past.

US President Bush, on hearing of OPEC's decision, roundly criticised OPEC and singled out certain of OPEC's members.

It was on Monday morning that the US Energy Secretary suggested, strongly, that the US Government should start exploration in Alaska for confirmed oil deposits in order to be weaned off the requirements to suck on Arab oil teats.

Alaskan oil, known to be plentiful, could be piped from the arctic north to the thirsty US at prices which could, easily, compete with crude oil, shipped from the Persian Gulf, it has been pointed out.

The OPEC members must realise that the US Government, faced with what it sees as a critical situation as prices tumble on Wall Street, will not forget, in a hurry, the discomfort that it felt from a tightening of the oil screws by the OPEC countries, which are responsible for about 40 percent of the world's exports of crude oil.

The increase in the price of crude oil was responsible, in part, for the inflationary tendency in the US in the latter part of 1999 since it became painfully obvious that it was difficult to pass on the additional costs of production to the US consumer.

The US Fed will meet today (Tuesday, New York time) and it is expected that it will cut interest rates by between 50 basis points and 75 basis points.

It will meet, again, on May 15, at which time, it is likely to consider, giving the US another shot in the arm of about 50 basis points.

The tightening US labour market was the main concern in respect of inflation in the US, as far as the Fed was concerned, last year.

But that threat appears to have abated, now.

Manufacturers cannot pass on all the increases in the cost of producing goods and services, today, due to strong and very stubborn consumer resistance.

As capacity utilisation falls, the pressure on prices of domestic products will, undoubtedly, decrease.

As industry lets go more and more of its workers, seen now being redundant to requirements, so pressure on the labour market will ease.

Conclusion: Now could well be a good time to start to build up a respectable portfolio in anticipation of the turnabout, which could come quicker than the downturn.

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