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U.S. TAX REBATES MAY NOT HELP THE ECONOMY

More evidence, to be added to the expanding list of documentary proof of the growing problems, facing the world's largest economy, is flooding in at what must be an unprecedented pace.

Following on from TARGET's exclusive report of last Friday (TARGET Intelligence Report, Volume III, Number 111), more statistics have just been gathered, adding more fuel to the fires that the US Federal Reserve will have to try to extinguish at its June 26 meeting.

Retail sales in the US, during the month of May, were almost unchanged from the month of April, but, calculating in food services, the growth rate is, at most, about 0.10 percent, month-on-month.

Motor-car sales and sales of ancillary services – repair shops, dealers, suppliers of motor-car parts, etc – slumped in the month of May by 0.70 percent, month-on-month.

A fall-off in sales in this sector of the economy is of vital importance and cannot be underestimated due to its level of weighting in the calculation of the Gross Domestic Product (GDP) in the US.

The entire, US motor-car industry and attendant ancillary services represent about 5 percent of the GDP.

Demand growth in the US is weak, without question.

The near-term outlook looks exceedingly uncertain.

The moderate growth in retail sales in the US, coupled with the weak demand growth will add urgently needed fuel to the US Government's flickering economic fire, allowing the US Federal Reserve to consider relighting and refueling it, thus stoking the smouldering embers.

If the embers of the fire should turn cold, such an eventuality would mean that the entire US economy would have to be revamped.

One has to bear in mind that the US economy is the largest in the world and, as such, it would appear that the US Government has a duty, as the world's Number One economy, to its trading partners.

While this suggestion is rarely voiced in public, the US economy, its gains and its losses, affects every nation of the world and, as such, the US Government owes a constructive duty to many nations.

The US Federal Reserve will meet on Tuesday, June 26, at which time, it is clear that a 25-basis-point cut in short-term interest rates is the least to be expected.

A full, 100-basis-point decrease in short-term interest rates should not be ruled out, completely, however: The Fed needs to do something, dramatic, it would seem.

Those Tax Rebates

What effect the tax rebate cheques will have on Mr Joe Public is unknown because, when the cheques do reach the letter boxes of those, who are qualified to receive the tax rebates, it is likely that part of that money will be used to pay the milkman, the furniture man, the finance company, etc.

It is unlikely that there will be much of a cash surplus left over, at the end of the day.

The amount of these cheques is about $US300 for a single person and $US600 for married parties.

It is estimated that the aggregate amount of money, which will be distributed to Mr and Mrs Joe Public, is in the neighbourhood of $US40 billion.

Many economists are claiming that the tax rebates will re-invigorate the US economy.

While it is likely that there could be some impetus, given to the US food industry – restaurants and the like – and back-to-school clothing for the kiddies could be on the shopping list for some families, TARGET does not hold with the economists' popular proposition that the money will re-invigorate the economy.

TARGET maintains that any seeming boost to the US economy would be more of a psychological one, if at all, and that any increase in spending in the retail sector will be short-lived.

An aspect of the recent statistics, relating to the US economy, is that, as TARGET reported in its issue of Wednesday, June 13 (please see TARGET Intelligence Report, Volume III, Number 109), sales of computer and electronics are in a steep decline: US households are holding back on spending on non-essential durables.

To say that the situation in the US economy is precarious is to state that which everybody and his cat knows -- and appreciates.

There would appear to be ample evidence to declare that the US economy is in recession, regardless of statements to the contrary.

Business investment has stalled and, until the consumer opens his purse, there is no reason for industrialists to add plant, which is likely to lie idle for a while in this climate of economic concern.

Supporting this view is the fact that sales fell last month, in the field of motor cars, electronics and building materials, compared with April's statistics.

In addition, garment sales, also, fell, month-on-month – and the garment industry is a very large segment of the economy.

There is, therefore, very little evidence of any broad underlying support for any concerted retail sales growth on the immediate horizon.

Conclusion: If 33 percent of the tax rebates finds its way into the US economy, that is between $US13 billion and $US20 billion, it might help drive up retail sales for a short time, only.

On a monthly basis, such an amount of money is equal to between 2 percent and 3 percent of total US retail sales.

But it is unlikely to be a sufficient amount of money to bridge retail spending in the economy until the economy picks up again – whenever that may be.

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