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BACK TO BASICS, BOYS

Gurus and pundits of the stock markets of the world, with special emphasis on Wall Street, have been saying, for the past year or so, that the US economy would turn the corner … after the first quarter of 2001 … after the second quarter of 2001 … after the third quarter of 2001 … and, now, the *'word'* is that the US economy would, *'probably'*, turn the corner in the first quarter of 2002.

Consumers in the world's largest economy, the US, have been spending at a rate, which appears to be unabated from first quarter spending, but, at the same time, their finances have been adversely affected by rising debts and historically low savings' rates.

As far as debt is concerned, the interest *'clock'* continues to tick, but there is little that can be done about that situation.

The pace of consumer spending of April and May is unlikely to be able to be sustained in the third quarter of this year as the burden of debt closes in, making itself felt, most pointedly.

In addition, jobs in the US are much more difficult to obtain, now, than just one year ago.

Unemployment in the US, now, stands at about 4.50 percent, up about 0.01 percent in May, compared with April.

In June, 114,000 workers lost their jobs; in April, 165,000 workers hit the streets in search of alternate employment.

In the past year, US Government statistics indicate that 785,000 people have been put out to pasture: Three quarters of those people lost their jobs in January, alone.

But that unemployment statistic is the official, US Government figure, only.

Probably, if the entire story were known, the growth in unemployment in the US is likely to be considerably higher because, among other things, about 1.50 million people have dropped out of the US labour force in the past year.

One must add to this, the fact that more than 10,000 US corporate entities filed for bankruptcy in the first quarter of this year.

The number of US bankruptcies in the first 3 months of this year was the highest since 1998.

In the 12-month period to June 30, 2000, the US **G**ross **D**omestic **P**roduct (GDP), adjusted for inflation, expanded by more than 6 percent.

One needs only to contrast that statistic with the succeeding year when records indicate that the GDP fell to less than 1.50 percent.

That there has been a decline in industrial output in the US is unquestionable; it is likely to accelerate in the coming months.

The decline, according to US Government statistics, is noted, especially, in factory orders for computer equipment and communications equipment, both of which had been powering the decade-long, economic boom in the US, up to the end of 1999.

In respect of new orders for computer equipment, there was a 2.81-percent drop in the month of May, which added to the 5.30-percent drop in April, which stacked up against the March figure of minus 3.26 percent.

As for communications equipment, the decline in factory orders fell 11.76 percent in May, which compared with a minus 6.20 percent figure for April.

More and more companies admit to staff and plant cutbacks, quite openly.

Few people, just one year ago, expected that industrial output in the US would drop for 8 consecutive months.

Today, industrial output is about 3 percent below the level of just one year ago.

Capital utilisation at some industrial concerns has fallen to an 18-month low of about 76 percent, statistics indicate.

Businesses must monitor labour costs in order to maintain profitability and, as a result of this truism, one learns, daily, of more and more people, hitting the pavements, looking for alternate sources of income.

Only recently, Triumph International made the decision to sack 400 of its workers in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

Management of Triumph International, a company, which is domiciled in Germany and is one of the foremost manufacturers of ladies' undergarments, gave the explanation as to the reasons for scaling back of production at its Tuen Mun plant in the New Territories of the HKSAR.

Management said: *'By doing so, management is endeavoring to take proper and timely measures to remain competitive and efficient to serve its customers, worldwide.'*

The 400-man cutback in the HKSAR represented about 67 percent of the entire company's workforce in the 416 square-mile territory.

The converse of the statements, made by Triumph International's management, is that, if the company had not cut back on its production level and the number of workers that it was supporting, then it would be unable *'to remain competitive and efficient'* in order to serve its worldwide customers.

The US Federal Reserve

In order to stimulate the US economy, the US Federal Reserve Board has instituted measures to bring down the cost of short-term borrowing.

It has done this 6 times this year, and it is expected to do it again, in late August.

The Federal Reserve Board came into being in 1913 and, since its inception, the US economy and the US stock markets, by and large, have responded to its principal stimulus of adjusting interest rates in order to fit the times.

But there is no guarantee that the Fed's actions will, always, be the panacea for the US economy.

US industrialists cannot move forward in any sustained drive to boost production because existing levels of production are ample to meet demand.

The dot.com *'revolution'* made for a confluence of factors, all of which conspired to boost the US economy.

This culminated in an unprecedented run-up in the value of equities and a tightening of the labour market.

That, in turn, fanned the flames of inflationary fears of the US – which spilled over into Asia.

Consumers in the US continued to spend, in many cases, excessively, because money was plentiful and there was a consensus that spending may go out of style unless one was in for the kill.

Housing starts shot up to new highs as many Americans decided that it was time to buy a new home, or go up-market.

As seed capital dried up, dot.com companies, starved for cash, went to the wall, one after another.

The rest is history: People lost their jobs in droves and the price of commercial property plummeted in many parts of California.

Many of the people, that were turfed out of jobs, are, still, not re-employed, but the interest-rate *'clock'* with finance companies and banks continues to tick … tick … tick.

The US stock markets were buoyed by claims from listed *'darlings'* that there was no end to consumers' appetite for this personal computer, the latest mobile telephone, the newest computer software, etc.

As US industrialists found themselves with warehouses, full of unsold goods, they announced that major, cost-cutting measures would be taken, forthwith, in order to reposition themselves, making them more efficient and more profitable.

(This is, exactly, what Triumph International has, recently, said and done)

The actions of the US industrials, in telling the world that hundreds of jobs would be lost by this action or that action was, probably, aimed at trying to convince extant and prospective shareholders that they were in the hands of responsible management.

For senior management of Nortel Networks Incorporated of Ontario, Canada, it did not work because many investors saw Nortel Networks's management for what it, really, was: Far from being the best.

But for many a chief executive of a listed company, the ruse worked.

The icing has fallen off the gingerbread, now, however, and many an investor has seen the value of his investments fall to hitherto unimaginable low levels.

If one were to ask a shareholder of Pacific Century CyberWorks Ltd (Code: 8, Main Board, The Stock Exchange of Hongkong Ltd) whether or not he thought that the price of his shares would rise to $HK16, again, one is likely to hear a very rude response to such a query.

Pacific Century CyberWorks, headed by the Number Two Son of Mr Li Ka Shing, announced in early 2000 that the sky was the limit for this telecommunications company: The Pacific Century *'aeroplane'* never lifted off the runway.

Last week, Pacific Century CyberWorks followed the same path as many US companies, listed on The NASDAQ and on The New York Stock Exchange: It sacked about 300 of its Internet workers and said that it would put a cap on spending in that area from now on.

Of course, that was after the proverbial *'horse'* had bolted, following some fool, leaving the gate of the stable, wide open.

The bust of the US dot.com companies has had a deleterious effect on the US economy, and it has cascaded down to Asia where support industries – chipmakers, motherboard producers, manufacturers of plastic housings, producers of visual display units, liquid crystal display manufacturers, and etc – are, now, facing the prospects of scaling back their production facilities because US factories are unable to find sufficient takers for their finished products.

Europe is feeling the pressure, too.

Scrip is terribly suspect as a medium of exchange, today, because share prices have fallen so much and so fast.

In addition, one does not know which company is hiding what, underneath its company's mat.

The mergers of just 2 years ago, when companies, such as Nortel Networks, would acquire a new *'partner'* for Nortel Networks's scrip, with the new partner, thinking that the share price of Nortel Networks would reach a certain, higher level in the course of a number of months, are fading memories.

Management and investors have come down, out from the clouds, back to terra firma.

Back to basics, once again.

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