VOLUME III No. 168 F R I D A Y September 7, 2001

THE ECONOMIC PICTURE GETS CLEARER : ASIA WILL GET IT IN THE NECK, TO BE SURE

The recently released statistics, relating to motor vehicle sales in the US, is painting a frightening picture of the US economy, if viewed in conjunction with other recently released US Government data.

Although seen in isolation, there would appear to be little about which to concern oneself on viewing the statistics, in respect of motor-vehicle sales in the US, the compound effect on the US economy of the latest batch of statistics, with regard to motor-vehicle sales in the month of August, are very telling.

According to Autodata Corporation, the total number of vehicles, sold in the month of August in the US, amounted to about 16.50 million units.

This is not dissimilar to the number of motor vehicles, sold in the US in the month of July.

However, on a seasonally adjusted annualised basis, the latest batch of statistics would appear to indicate a decline in the pace of motor-vehicle sales, compared with the like period in 2000.

It was only due to the strength of sales of light lorries that the August statistic was slightly ahead of the July one.

One may expect to witness a decline in spending on new motor vehicles in the US for the remainder of the year.

The importance of sales of motor vehicles in the US cannot be underscored, sufficiently, because such sales represent about 25 percent of total retail sales in the world's largest economy.

Also, such sales represent about 5 percent of the **G**ross **D**omestic **P**roduct (**GDP**: The total value of goods and services produced in a country) in any one year.

When one talks about motor-vehicle sales in the US and its importance to the economy, one must not forget that sales of new motor cars/lorries are only part of the picture because support of sales – repair shops, dealers, parts suppliers, modification specialists, etc – also have to be included in any equation, relating to the importance of the industry on the overall economy.

What may be considered most frightening for the US automobile industry is that motor-vehicle sales in the month of August slipped below the 60-percent level of all sales of motor vehicles in the US.

This is the first time in the history of the industry – it was *'born'* at the turn of the 20^{th} Century – that this has been manifest.

Customers in the US are shying away from domestic brands in favour of foreign imports. This has been continuing at an amazingly fast past.

An example of this is that DaimlerChrysler's sales of its vehicles in August were off by about 22 percent, compared with August 2000.

As for General Motors and Ford, their August sales were off by about 8 percent, each, in the month of August, year-on-year.

On the other hand, Germany's Volkswagen motor-vehicle sales are enjoying double-digit gains while sales of Korean-made, motor vehicles continue to make headway in the US.

The following TARGET table is self-explanatory:

	In Millions of Units – Seasonally Adjusted Annualised Rate								
	2001								2000
	August	July	June	May	April	March	February	January	December
Total Vehicle Sales	16.50	16.50	17.30	16.50	16.60	16.90	17.30	17.00	15.50*
Motor Cars	8.10	8.10	8.40	8.30	8.50	8.40	8.90	8.70	7.90*
Light Lorries	8.50	8.40	8.80	8.20	8.20	8.50	8.40	8.30	7.60*
General Motors Vehicle Sales	4.70	4.40	4.80	4.70	4.30	4.60	5.10	5.00	4.20
Ford Motor Vehicle Sales	3.70	3.70	4.10	3.80	3.80	4.00	3.80	3.70	3.40*
DaimlerChrysler Vehicle Sales	2.00	2.30	2.30	2.10	2.30	2.40	2.60	2.30	2.10*
Honda Vehicle Sales	1.30	1.20	1.20	1.10	1.20	1.10	1.20	1.30	1.10*
Toyota Vehicle Sales	1.70	1.70	1.70	1.70	1.80	1.70	1.60	1.70	1.70*
Nissan Vehicle Sales	0.70	0.70	0.70	0.60	0.60	0.70	0.70	0.70	0.70*

*Not Seasonally Adjusted Annualised Rate

Eroding consumer credit conditions, a tightening of purse strings by US consumers, an ever-weakening labour market, and a stock market that hits one low after another are all playing havoc with the US economy, reflected to a great extent in the sales of motor vehicles.

Had it not been for lower interest rates in the US, it is certain that motor-vehicle sales would have slipped a great deal more than the recently released statistics, annually adjusted.

Having said all that, on the books, the year, 2001, looks to be shaping up to the best year ever for the *'Big Three'* in the US.

But that will mean nothing at the end of the day if the situation continues to deteriorate at the current rate.

Production of motor vehicles in North America is scheduled to be reduced by about 4 percent, compared with production levels of 2000, due to statistical research, which appears to indicate that motor-vehicle sales for 2002 will not approach the levels of 2001.

For the remainder of the year, an average level of sales of motor vehicles of about 16.20 million units, seasonally annualised, would appear to be the best scenario – and this level, if the *'Big Three'* are lucky, is likely to persist throughout most of 2002, assuming that there are no fundamental changes in the US economy.

The Labour Situation in the US

Looking at the labour situation in the US for the week, ended August 25, one notes that continuing claims for unemployment insurance, at about 3.17 million claims, are the highest levels in the past 9 years.

New unemployment insurance claims for the week of August 25 actually fell 1,000 claims to about 399,000 claims, week-on-week, but that would appear to mean very little, all things considered.

These statistics, produced by the US Commerce Department, should frighten the pants off many an economist.

Aside from new unemployment claims, what would appear to be the most important factor about the newest set of statistics, with regard to the US labour situation, is the clear indication that those workers, turfed out of work, earlier this year, are finding it increasingly difficult to obtain alternate employment.

That has to be the obvious conclusion, otherwise continuing claims would not have reached the present, 9-year high.

News of sackings at Gateway, Ford, General Motors, Nortel Networks, NEC USA, and a host of other companies, and, now, another 13,000 workers, who are expected to be made redundant in the Hewlett-Packard-Compaq Computer Corporation takeover, worth about $US25 billion, will all conspire to exacerbate an already worsening situation in the US.

Smoothing out the wrinkles for any one week, the 4-week moving average of new insurance claims rose to 393,000 claims, up from about 380,500 claims for the week, ended August 18.

The unemployment rate in the US for the week of August 25 stood at about 2.50 percent.

In June and July, it was about 2.40 percent.

Conditions in the US labour market are bleak, to be sure.

Relatively high unemployment levels must lead to continuing tightening up by consumers: They have to be assured from where the next meal is coming.

If there are 2 quarters of negative growth – as TARGET has mentioned before –if capital spending dries up, coupled with an extended decline in general business activity (which has, already been seen, clearly) the US has entered the pleasant state of recession.

Industry cannot expand, regardless of interest rates, unless there are positive signs that their services and products can find takers.

If industry cannot hire, consumers cannot spend: That is a self-evident truth.

What affects the US economy, goes doubly for Asia.

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