DON'T HOLD YOUR BREATH, WAITING FOR THE TURNABOUT

With US capital spending, now confirmed to have fallen by about 9.30 percent in the third quarter of this year, it is yet another part of the economic puzzle, fitted into place.

The US corporate sector is weak; it will continue to weaken in the months to follow.

The US Federal Reserve Board will have to rethink its present policy, but it, surely, must continue with its policy of cutting short-term interest rates in the US in order to continue to try to stimulate the economy.

Baring any further terrorist attacks on US soil, The Fed is quite likely to succeed.

But it could take another 8 months to one year before very tangible results will become apparent to industry and the consumer.

Record low capacity utilisation, lower corporate profits, and a great deal of business uncertainty are all taking their toll of the largest economy of the world.

US consumer-spending statistics, released just last week, painted a picture, which, on the surface, made some people, think that, perhaps, the worst was behind us.

In fact, last week's statistics were, in the kindest interpretation, very suspect, while the harshest statement would be to label them as being *'artificial'*.

This is because the statistics included zero-finance incentives, and it was those incentives, which helped to loosen the purse strings of quite a number of US consumers.

The robust sales of motor vehicles in the US, fanned by zero-financing packages, distorted the overall picture of the country, but one must, also, put into the picture, the time of year that these statistics were collected; and, then, factor in seasonal adjustments.

While the Christmas holiday season, traditionally, sees homemakers in the shops, spending money on presents for loved ones, although this Christmas may not be a very joyous one, compared with the Christmas of 1997, let us say, it still will result in consumer spending, being higher than seen in the month of June, July, August, etc.

Subdued consumer spending throughout the US is expected in the short term due to the fact that personal income is low, relative to just last year at this time.

In the month of October, this year, there was no increase in personal income, taken across the board in the US.

Wages and salaries in October were, in fact, at their lowest levels since 1993, slowly spiralling down at about 0.3 percent, negative.

During the month of October, US savings fell to 0.20 percent, compared with 4.60 percent in September.

Many consumers sought, and were afforded, refinancing packages in respect of mortgages.

These refinancing packages were at lower levels, thus providing a slight impetus to earnings.

Tax cuts and lower power costs, also, helped to provide some relief to the long-suffering US consumer.

However, consumer confidence still remains weak, nevertheless.

This is due to a number of concerns: Rising unemployment; slower income generation; and, of course, the prospects of further terrorist attacks on US soil.

Unemployment in the US continues apace, and the deterioration is frightening the Administration, led by President George W. Bush. (Please see last Monday's lead report on this subject)

The November figures, indicating an unemployment rate of 5.70 percent, put the fear of God into some people, but, for readers of TARGET, it should not have fazed them because this scribe had suggested such an eventuality, many months ago.

The brightest spot in the US economy is the determination of the Administration not to allow the economy to be in the doldrums for an extended period of time.

There is, and has been, a great deal of hype over US nationalism – *'I am an American!'* – with the drums and fifes, sounding from one end of the country to the other.

It would be fair to state that expansionary fiscal policy is a certainty in the US.

Additional personal tax concessions, coupled with corporate tax cuts, as well as US Government spending is likely to top $US190 billion, during 2002.

What all this means is that the US economy will turn, but it will not be this year, to be sure.

For Asia, the cascading effect will not hit until 2003, most likely.

Therefore, one should not hold one's breath, waiting for the good times to come round, again.

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