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DON'T LISTEN TO THE B… S… : ASIA WILL NOT RECOVER IN A HURRY

Asia is feeling the brunt of the downturn in the US; it will smart, even more, as the year wears on.

There is no light at the end of the economic tunnel, contrary to what some Asian moguls in the world's most populous region would have one believe.

There is good reason to consider shorting many stocks and shares on major bourses in Asia: The Stock Exchange of Hongkong Ltd; The Tokyo Stock Exchange; and, The Singapore Stock Exchange, just to mention 3 major Asian bourses.

Just when the US package of financial stimulants will kick in is not certain, but it would appear that the second half of this year might well be the earliest time.

Japan, especially, the world's second largest economy, is suffering more than any other economy of the civilised *'Western'* world, today, as industrial output hits one new low after another: It is, presently, at a 14-year low, according to The Ministry of Economy, Trade and Industry.

Commenting on the latest figures, Mr Katsusada Hirose, Vice Trade Minister, said: *'A fall of 1.80 percent in* (mine and factory) *output was worse than I hade expected.'*

Mr Hirose admitted that it was the third consecutive month of falling industrial output for Asia's largest and most powerful economy.

The unemployment rate in Japan, today, stands at nearly 5.50 percent.

For the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), the unemployment rate is about 5.80 percent, according to the Census and Statistics Department of the HKSAR Government.

There is every reason to believe that the economies of the HKSAR and Japan will continue to deteriorate.

Asia *'feeds'* its trading partners, the US, being its biggest single market.

So, if the US economy is very ill, for Asia, the malady could be terminal for many a public and private company.

Personal income in the US fell by about 0.10 percent in November, last year.

It was the third consecutive month of falls in personal income levels in the largest single economy of the world.

Considering the continuing high, unemployment-insurance claims in the US, which are standing at about 3.70 million claims, it is unlikely that one will see personal income able to rise in the near future.

The continuing claims from the unemployed in the US, up to December 15, 2001, are not the highest levels because they were reached in November 2001 when they topped about 3.99 million claims.

The insured unemployment rate in the US, today, stands about 2.90 percent.

It is high by recent standards, without question. In fact, it is high by any standard.

But one has to bear in mind that this high level of insured unemployment is due, to a great extent, to the multiple sackings of highly skilled, full-time workers, whose remuneration packages are just too much for US industry to bear.

So, this category of worker was among the first to feel the pinch of the US economic recession.

Initial insurance claims from the unemployed of the US rose by about 7,000 claims for the week, ended December 22, 2001, to about 392,000 claims, seasonally adjusted.

The growth in US workers, being turfed out of work, continues unabated; and, it is unlikely to grind to a halt in the short term.

With high unemployment, nationally, rising to close to 6 percent, and expected to crest at just above that level, or perhaps, a little higher, consumer spending must be restrained.

And that means that the US consumer will be purchasing fewer personal computers, garments, toys, etc, all of those items, being produced, in part or in whole, in Asia.

Demand for temporary help, which is considered one of the many key factors in making a macroeconomic determination (the overall aspects and workings of a national economy, such as income, output, and the interrelationship among diverse economic sectors) continues to wane, according to the most recent available statistics, compiled by the US Commerce Department.

Seasonal hiring, such as those workers who, historically, are employed to ease the load in departmental stores, during festive seasons, continues to fall.

This, of course, is the knock-on effect and stems from the much reduced consumer demand.

The Effects Of Terrorism

The terrorist attacks on New York and Washington of September 11, 2001, naturally, have taken their toll of consumer confidence in the US, but things were not looking well, even before the attacks by the Muslim madmen.

The US Postal Service, a major hirer during holiday seasons, was seen to be trimming its staff levels and hiring plans over the last Christmas season.

In some regions of the US, hiring by the US Postal Service was off by as much as 40 percent, compared with the like 2000 period.

Retailers in the US, as expected, did not see much of a buying splurge in the fortnight, leading up to Christmas; and, the sour retail sales figures put the damper on seasonally hiring.

Instead, many shops extended the working hours of permanent staff as an alternative to hiring part-time help.

Other than in New York, where there were artificial factors at work, in many major US cities, the Christmas shopping spree was a non-event.

In many parts of the country, one could have fired a cannon down the aisle of some of the largest departmental stores in the certain knowledge that nobody would be there to be hurt.

Downtown Toronto, Canada, saw it only too plainly in the fortnight, leading up to Christmas, as Eaton Center, on many evenings, was extremely quiet, with the exception of people, using the area in order to escape the cold for a few minutes.

Canada is dependent on the US economy for about 85 percent of its exports so that, when the US is hurting, Canada is doubly hurting.

Canada's unemployment rate is, today, somewhere in the region of 7.60 percent.

Conditions for temporary help in the US are not expected to improve in the next 6 months or so.

Personal consumption expenditure in the US must fall as a natural extension of the aforementioned; one saw a 0.70-percent drop in personal consumption expenditure in the month of November 2001, which statistic contrasted markedly with the October statistic, which was a plus 2.90 percent over September's figure.

At the same time, US personal savings rose about 0.90 percent in November, up from 0.20 percent for the month of October.

This increase was, probably, linked to the US Government's tax rebates, reaching taxpayers.

Wages and salaries in manufacturing fell by about 7.20 percent, during the month of November, for obvious reasons.

Interest income is, also, on the wane so that, as interest rates continue to come off, so income from fixed investments – Certificates of Deposit, bank savings accounts, etc – will continue to fall.

Less money at the shops, pumps and restaurants in the US translates into less demand for Asian-produced goods and services.

The growth in real income in the US is at the lowest levels in the past decade.

Without question, US legislators will seek to hang their hats on these statistics in order to pass more legislation in an effort to stimulate the sluggish US economy.

But there is still more bad news on the horizon.

The worst is not yet over in the US airline industry, not by a long shot.

The US airlines are, today, facing the worst time in more than a decade.

The US economic conditions, mentioned above, plus increased recurring costs in respect of heightened safety concerns, demanded by a frightened government, are taking their combined tolls of gross revenues.

Passenger traffic is nowhere near the levels of pre-September 11.

Passenger volumes are down by about 20 percent since early September, according to statistics, made available by some of the largest airlines, still flying in the US.

In spite of the US Government, agreeing to bail out some of the airlines with $US15 billion in cash, such a stimulus is unlikely to resolve the situation, which is growing more and more critical, month after month.

It is likely that more failures in this important industry will come to light in the middle of this year – if not earlier.

Amalgamations, liquidations and bankruptcies by some of the weaker airlines are on the cards.

And an industry consolidation is unlikely to be the answer, also, due to anti-monopoly legislation and the fact that the strong may, just, not be strong enough to prop up the weak for an extended period of time.

For calendar 2001, it had been estimated, before the September 11 events, that the US airline industry would lose about $US4 billion.

That this industry was on a course to lose money, last year, was well expected because the US economy was, already, coughing up blood.

The collapse of US consumer demand for air travel, following the terrorist attacks of September 11, only exacerbated an already difficult situation, with current estimates of last year's airline losses, put at between $US8 billion and $US10 billion.

In the third quarter of last year, alone, the 9 largest US airlines lost about $US2.40 billion, it has been reported.

Plunging revenues have forced many airlines to cut staff loads and to trim expenditures.

However, cuts of this nature can only go so far, as Cathay Pacific Airlines Ltd (Code: 293, The Stock Exchange of Hongkong Ltd), the largest airline, operating out of the HKSAR, learned last year when it lost a great deal of its custom to other regional competitors, Singapore Airlines, in particular.

At the end of the day, the depth and duration of the US economic recession will determine the extent of the sickness in this industry.

One recalls the fate of Pan American Airlines and Eastern Airlines, both of which were brought to their knees in the early 1990s.

Which US airlines will go to the wall, this time around, is being considered, today, in many a boardroom.

Asia will feel the backlash of what transpires in the US in the coming months, to be sure.

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