U.S. HOUSING STARTS CONTRACT MARKEDLY

If the market value of bricks and mortar is an indication of the health of an economy, then, the US economy is still in the quagmire.

According to some of the most recent US Government statistics, residential construction in the US contracted by about 3.40 percent in December 2001, compared with November 2001.

Seasonally adjusted and annualised, the number of new housing starts fell back to about 1.57 million units in December 2001, down from the November figure of about 1.63 million units.

This may be considered a bit surprising, actually, because, with US mortgage rates at some of their lowest levels in recent history, one would expect those prospective households, with available cash and/or good credit ratings, to catch a ride on the current bandwagon while the going was still good.

The situation with regard to contracting housing starts may right itself, soon, however, since US Government statistics also indicate that the number of applications for new buildings, single-family and multi-family, is on the rise.

In December 2001, the number of building permits that was issued, right across territorial US, rose nearly 6 percent, Year-on-Year, and about 4 percent, Month-on-Month.

It will take quite a number of months, however, before one may see a positive trend emerging in order to state that the worst is, now, over.

Lower bank interest rates in the coming months may assist this important sector of the US economy, no doubt, but there are a number of other factors that must be taken into consideration before committing oneself to making categorical determinations about the largest single economy of the world.

With real yields from stock-market activities, being low to negative, investors tend to gravitate from *'paper'* to *'real property'*.

At this stage of the game, it would appear that there are more negative risks than positive risks on the horizon – whereever that horizon may be.

Industrial Production

While one may point to US housing starts as being a possible glimmer of light in the darkness, industrial production statistics in the US tell another story.

According to US Commerce Department figures, in the month of December 2001, industrial production fell about 0.10 percent, Month-on-Month.

Capacity utilisation, on the other hand, was down to about 74.40 percent, which is the lowest level in the past year or so.

And capacity utilisation is expected to fall, even further, in terms of plant and equipment that was in use, as at the beginning of 2001.

(One has to be especially careful of statistics of this nature because many US companies have scaled back, dramatically, their utilisation of plant and equipment and, in some cases, they have sold off equipment, and even entire factories)

One thing is certain, in the previous 5 months, prior to December 2001, industrial production in the US has fallen for 4 of those months.

Motor-vehicle sales in the US rose in the month of December by about 4.60 percent, Month-on-Month, but that anomaly was due, almost entirely, to 2 factors: Low inventory levels; and, US motor-vehicle producers, offering cash incentives and zero, interest-rate financing packages.

For the 2 months of November and December 2001, US Government statistics indicate the only 2 positive months of increases in motor-vehicle production in the previous 6 months.

There could well be continued improvement in the manufacturing sector of the US economy, albeit on a much smaller scale than was in existence at the beginning of 2001 due to contraction of plant and equipment as well as reductions in Establishment levels.

Capacity utilisation, today, is at its lowest level since 1983, in any event, taking all factors into consideration.

With inventories at below 2000 levels, in many cases, it would appear that there could be good reason to think that there will be a resurgence in industrial output in the US in the near term.

For the previous, 18-month period, ended December 2001, statistics record a contraction of about 8 percent from peak production levels.

All things considered, one should not jump to the conclusion that there is likely to be any rapid, or materially, noticeable increase in domestic demand in the US, but indications are that things could well be on the mend, at least superficially.

In the immediate future, TARGET sees no reason for optimism because US consumers are likely to continue to curtail any large-scale spending in view of the continuing layoffs and general uncertainty over future job prospects.

It would appear that the US economy could well continue to contract once more before it takes off, again, probably in the latter part of the year.

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