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INTEREST-RATE CUTS MAY STOP, BUT NOT THE ROT

The end of interest-rate cuts is at hand, at least for the time being.

Dr Alan Greenspan, the Chairman of the US Federal Reserve Board, just about said that, last Thursday, when addressing the US Senate Budget Committee on the state of the largest economy in the world.

While there may not be any immediate threat of higher interest rates, it is a forgone conclusion that the good doctor will keep a firm hand on the tiller of the good ship, USA.

Dr Greenspan started off his testimony to the US Senate, stating that *ëÖ there have been signs, recently, that some of the forces that have been restraining the* (US) *economy over the past year, are starting to diminish Öí*.

One of the *ësignsí*, to which Dr Greenspan was referring, was the US jobless statistics.

According to The US Bureau of Labour Statistics, for the week, ended January 19, initial claims for unemployment insurance fell to about 376,000 claims, which would appear to sit well with the January 12 statistics, which put initial claims at about 391,000 claims, both figures, being seasonally adjusted.

That brought the 4-week, moving average to about 404,000 claims, that figure, being the lowest level since September 8, 2001, according to **TOLFIN** (**TARGET**ís Online Computerised Information Service).

Continuing claims from the US unemployed, however, are, still, relatively high, at about 3.46 million people.

That there is, now, a decline in the number of people, seeking unemployment insurance for the first time, is good news for the economy, no doubt, but until the numbers fall closer to the 300,000 claim level, there would appear to be little reason to uncork the Champagne.

Memories are short, to be sure, because it was only a fortnight ago that Ford Motor Company announced that it would be sacking tens of thousands of its workers in order to bring the company back to profit.

In fact, the figure was about 21,000 workers to be given their pink slips, round the world.

Since the start of 2001, the manufacturing sector of the US economy has accounted for more than 50 percent of all unemployment in the country.

The Bureau of Labour Statistics has stated that, in the month of November 2001, manufacturers in the US off-loaded about 150,000 workers.

And the culling axe is far from being blunted, as is only too evident by Fordís determination of a couple of weeks ago.

The November figures for sackings represent the third highest month, in terms of sackings in the US, since the middle of 2000.

And, now, there is Ford with which the US worker has to contend.

Ford, not only announced that it would sack tens of thousands of its workers in Continental United States, but that it would be closing down plants in places, such as Canada, a country which depends on about 85 percent of its total exports, being sold to the US.

The knock-on effect of the sacking of just 2,000 workers in the Toronto, Canada, plant will be felt throughout the country, which is enjoying an unemployment rate of about 8 percent.

In short, over the next few months, it is quite likely that initial claims for unemployment insurance from US workers will rise.

They are unlikely to fall much lower and, even if they did, such a respite would be for a short duration, only, in all likelihood.

It is fact that, at this time, the US is facing the highest rate of unemployment since the recession of 1995.

Things will get worse before they get better.

But that would not negate many of the statements of Dr Alan Greenspan ñ because things are on the mend in the US, to be sure.

The road to economic recovery, however, is not be paved in smooth concrete, but in asphalt, which is subject to weather conditions, harming the surface and causing it to undulate.

One of the reasons for believing that the road to recovery is fraught with potholes is that there is no indication of consumers in the US, loosening their purse strings.

Indeed, how could one expect them to do so with the prospects, looming for many more layoffs?

Rising unemployment, coupled with continuing, near-stagnation in the manufacturing sector of the economy, conspires to restrain consumer spending and capital spending, as any first-year student of economics knows.

The Kmart Corporation bust, announced last week, with blame, being placed on the Christmas sales non-event, is a sure-shot sign of the fragility of many sectors of the US economy.

It is, of course, a nonsense to blame the lack of sales, over the Christmas season, for the failure of this 21,000 retail chain in the US, because its competitors, Wal-mart Stores Incorporated and Target Stores Incorporated, have yet to file Chapter 11.

And Management of both stores has, in fact, said that things were mildly better during the fortnight, leading up to December 25.

Those stores seem to be doing quite nicely, relative to Kmart, thank you very much.

For the tens of thousands of workers of Kmart, they must be looking round for alternate sources of employment, today, because it would be incongruous not to think that pink slips will be flying, fast and thick, at this retailer.

Kmartís problems, probably, could be pinpointed to poor buyers, stocking the stores with the wrong kind of merchandise, or, alternatively, stocking the right kind of merchandise, but at non-competitive prices, and/or the merchandise, being of a poor quality.

As Nobel Prize winning economist, Mr Milton Friedman, has stated, on so many occasions, that the best controller of a market is the market, itself.

And the US marketplace has spoken: It does not like to shop at Kmart.

Kmartís demise is, no doubt, a precursor of things to come, in the same way that many motor cars, electronics companies, manufacturers of apple peelers and magic lanterns died natural deaths when the buying public turned their back on them.

Inventory levels have yet to have fallen to any appreciable point that widespread restocking is required, as is only too evident in the case of Kmart, which is suffering a dire cash-flow problem ñ as mile-high shelves of goods, stand in their stores.

It will take a sustained demand for goods and services to ensure a resumption of steady economic growth in the US ñ and that *ëanimalí* is not seen on the horizon.

To quote the words of Dr Alan Greenspan: *ëÖ the impetus to activity* (in the US) *will be short-lived unless sustained growth of final demand kicks in Öí.*

There is, still, a great deal of overcapacity in the US industrial sector, and there is, as yet, constrained consumer demand for even the scaled-down version of industrial output.

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