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THE EASING IS OVER: THE TIGHTENING WILL FOLLOW ?

Now that the US Federal Reserve Board has determined that no more short-term, interest-rate cuts are necessary in order to stimulate the economy, the next question is: When will the US Federal Reserve Board consider tightening the screws on the economy – by jacking up interest-rate levels from their current 40-year, low levels of 1.75 percent?

Last week's meeting of the US Federal Reserve Board resulted in the decision not to reduce short-term, interest rates in the US, any more. At least, not at this juncture, that is.

In the past year, The Fed had reduced interest rates a record 11 times.

Desperate times demand desperate measures.

It was fully expected that The Fed would leave interest rates untouched, last week, because, just one week prior, Dr Alan Greenspan, the Chairman of The Fed, told the US Senate Budget Committee almost that very same thing.

Dr Alan Greenspan suggested that there had been definitive signs that the US economy was no longer suffering the tragic after-effects of the events of September 11, 2001; and, that there were strong indications that the economy was on the road to recovery.

However, TARGET would like to point out that the US might still be enjoying a recession, at least technically, and that it is highly unlikely that US consumers will start opening up pocketbooks in a hurry.

Weighing over the economy, of course, are the mountains of inventory, much of which must be cleared, prior to re-ordering to begin.

Some of the inventory, no doubt, is now obsolete.

TARGET wonders, for instance, how much *'dead stock'* has companies, such as Nortel Networks Incorporated, and companies of its ilk?

According to one usually reliable source, Nortel has huge stockpiles of old technology odds and sods in Asia, gathering rust and dust.

What is true for Nortel, invariably must be true for its competitors.

In addition to excessive inventory levels, the other consideration, weighing on the US economy, is excess manufacturing capacity.

As inventory levels fall, so vanishes some of that excess manufacturing capacity, which must, then, gear up in order to replenish diminished supplies.

However, there is little evidence, to date, of investment spending in corporate America, although, in the last quarter, ended December 31, 2001, there was some evidence of purchases of small quantities of information technology equipment.

Which was better than the retraction of the previous 12 months, isn't it?

It is estimated that at least $US100 billion is the value of inventory *'garage sales'* over the past year or so.

The Enron accounting hiccough is unlikely to take much of a bite out of the US economy or of investors' confidence, but there are likely to be some highly charged comments from various people, suggesting one thing and another.

Aside from interest rates, which are likely to start to roll back toward the 5-percent mark, there is, still, the question of labour market conditions in the world's largest single economy.

At year's end, there was ample evidence of very weak labour conditions in the US.

According to data of The (US) Labour Department, in December, there were 2,425 mass layoff actions, involving 50 or more workers per action.

The number of workers, who were affected, amounted to about 267,839, The Labour Department stated.

At the same time, the December 2001 statistics were below those of the month of November 2001 when about 293,074 workers were laid off in the US.

(The Labour Department does not adjust its figures for seasonal variations, TARGET should point out, so that only an indication of direction should be drawn in respect of mass layoff actions)

Last week, The Labour Department said that, for the week, ended January 26, initial unemployment claims rose from the January 19 figure of 360,000 claims to 390,000 claims, seasonally adjusted.

However, the 4-week moving average was down from the January 19 figure of 401,000 claims to 386,000 claims.

Which, on the surface, appears to be most promising – provided that such a deterioration in the labour statistics continues.

It may still be too early, but it would appear that the worst, insofar as mass layoffs are concerned, is over.

Whether or not the worst is over in the US, it will take some time before Asia will feel the impact of any turnaround in the economy.

For the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), it is unlikely that it will see any appreciable improvement in its economy in the next half year or so, while the manufacturing hubs of Asia – of which the HKSAR is no longer one – will be able to enjoy any knock-on effect from improvements in the US economy.

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