

TAKING A CLOSER LOOK AT THE U.S. ECONOMY

The unemployment situation in the US may be much worse than many people and organisations had, hitherto, reported, or fully understood.

If one looks at the unemployment statistics of the US and couples them with other economic indicators, having been collected by US Government departments, of late, and/or private organisations that track the largest economy of the world, it would seem to indicate that the President of the most powerful country in the world may not have been fully briefed on the situation.

Of course, there are those who believe that President George W. Bush may not be able to understand the economics of the country that he heads, in any event, but that is a subject for another type of TARGET report.

According to the US Government, both the unemployment rate, now standing at about 5.90 percent, and the total, non-farm payroll employment, which, today, stands at about 130.80 million people, were almost unchanged in July, compared with the June figures.

A gain in payroll employment in the Services Sector of the economy was partially offset by a decline in the Construction Sector.

Job losses continued to moderate in manufacturing, but the factory workweek fell.

The number of unemployed people in the US, about 8.30 million people, in all, and the unemployment rate were essentially unchanged for the third consecutive month, during the month of July.

The unemployment rate for adult males, about 5.20 percent, adult females, also, about 5.20 percent, teenagers, about 17.70 percent, whites, about 5.30 percent, blacks, about 9.90 percent, and Hispanics, about 7.60 percent, were little changed in July, compared with June.

But the number of people, who were unemployed for 15 weeks or more, fell by about 220,000 workers to about 2.90 million workers in July.

The importance of the last statistic is that it has been trending steadily upward since June 2001.

Against this, the civilian labour force and the labour-force participation rates were almost unchanged in July, as were the number of employed people and the employment-population ratio.

The number of unemployed people is extremely close to their levels, as measured as at the end of last year.

But the situation gets a little more frightening as one starts to extrapolate the US Government statistics.

In July, the number of US residents, who were working part-time, despite their preference for full-time employment, increased by about 278,000 workers, to about 4.20 million people.

And this statistic follows declines in May and June, and brings the number of people, working part-time – obviously for economic reasons – to a figure that is close to the April level.

Which translates into no improvement, at all.

Since March 2001, the number of people that fall into the above category increased by about one million people.

Additionally, there are about 1.50 million people, who were marginally attached to the US labour workforce in July. (Not seasonally adjusted, the US Government is quick to point out)

Those 1.50 million people compared with about 1.20 million people of just one year prior.

These people reported that they wanted, and were available for, work, and had looked for work, during the prior 12 months.

These people were not counted as part of the unemployed statistics, which is, normally, digested and regurgitated by the Popular Press.

The reason for this seeming anomaly is that these people had not actively searched for work in the preceding 4 weeks.

This is the criterion for inclusion in the US Government's survey of the unemployment situation, during a certain period.

In July, the number of discouraged workers was about 398,000 workers, the US Government statistics indicate.

Discouraged workers are a subset of the marginally attached workforce; the reason that they are not, actively, searching for work is due to the belief that there are no jobs, suitable for their talents.

Additions

Looking at the additions to the US workforce, the Services Industry added about 50,000 jobs in July.

That statistic represented the fifth consecutive monthly gain in this important industry.

In the Health Services Sector of the economy, there was a growth of about 29,000 workers in the number of people employed.

Against these gains, the Help Supply Industry, which supplies workers to other businesses on a temporary basis, lost about 35,000 jobs, during the month of July.

It is important to note that, from February to June, this year, this industry had added about 145,000 jobs.

And, today, the Help Supply Industry would appear to be in decline – at least, for the month of July, it was in decline.

Other areas in the US economy that saw declines in employment were in the Manufacturing Industry and the Construction Industry.

In the month of July, the Manufacturing Industry lost about 7,000 jobs, but, in the Construction Industry, the job losses were about 30,000.

This is in stark contract to June when about 14,000 jobs were added to the Construction Industry.

With regard to the Construction Industry, the US Bureau of Census determined that, in the month of June, the value of new construction projects fell by about 2.20 percent, compared with May.

Spending on new construction projects fell in all major categories, the Bureau reported.

In April, the total value of construction spending, seasonally adjusted, was about \$US856.40 billion, dropping to about \$HK839 billion in May, and falling further in June, to about \$US820.80 billion.

Therefore, there had been a 2-percent drop in construction spending in the month of May, compared with April, and another fall of about 2.20 percent for the month of June, compared with May.

Non-residential construction spending is weak, having posted 5 consecutive months of declining values, thanks to the compilation and interpretation of the June statistics.

As for public construction spending, that declined in June and more than negated the increase that was posted in May.

It is well expected that this trend will continue until at least the end of the year, if not longer.

Private residential construction spending has been falling steadily since March, with an average monthly decline of about 0.80 percent.

In fact, private residential construction spending in June, at about \$US197.50 billion, with just \$US600 million greater than the November 2001 figure of about \$US196.90 billion.

In short, June's figure of about \$US197.50 billion is an 8-month retraction in private residential construction spending.

As had been widely expected, losses in the Communication Sector of the economy shot up, for obvious reasons.

The industry pared about 128,000 workers, compared with its employment peak in April 2001.

Weekly Hours Cut

The employment/unemployment statistic is one measure of a country's present economic situation, but one, also, has to look at the average workweek.

According the US Government, again, the average workweek for the production or non-supervisory workers on private non-farm payrolls declined by about 0.30 hours in July, to about 34 hours, seasonally adjusted.

The manufacturing workweek declined by about 0.40 hours to 40.70 hours, while factory overtime was slashed by about 0.20 hours to 4.10 hours.

The average hourly wage cost for US factories or non-supervisory workers on private non-farm payrolls increased by about 4 cents (US) in July, to \$US14.79, seasonally adjusted.

But the average weekly earnings packet was cut by about 0.60 percent, during the month of July, to \$US502.86.

For the first 7 months of this year, the average hourly earnings have increased by about 3.20 percent while the average weekly earnings grew by about 2.60 percent.

Chain Store Sales

Much of the above explains, to some extent, the findings of banks and branches of the US Government, which are involved in surveys of major chain store sales in the US.

(The definition of a survey of major chain stores encompasses at least 81, US chain stores)

For the month of July, US consumer spending in major chain stores – general merchandise, apparel and furniture – grew by about 2.60 percent, Year-on-Year.

That figure compared with a gain of about 5.10 percent, recorded in the month of June.

Further, the average monthly increase for this Fiscal Year, started in February, is about 4.20 percent.

Considered disappointing by many economists, it was noted that a proportion of the fall was, probably, due to low inventories.

Sales in the month of August are expected to improve because it is back-to-school for the kiddies, most of whom will require sneakers, pants shirts, pencils, books, etc.

But the extent of the growth in sales at chain stores for the month of August, assuming that there is to be a growth, Year-on-Year, will set the stage for the direction of the economy in the months ahead.

The July figures were especially disappointing for retailers of apparel and footwear chains.

Despite record sales of homes, throughout the US, sales at furniture stores were seen to have moderated.

One cannot, of course, make a definitive determination, based on one month's statistics, about anything, but it is a safe bet to believe that equity wealth – or the distinct lack of it – and consumer confidence – and the clear lack of this – present a clear and distinct risk to the outlook of spending in the US in the near future.

There has been, however, some confusion in that many US taxpayers have been receiving their tax rebate cheques, and some of that money is finding its way into shops.

Many chain stores, also, are offering hefty discounts to customers in order to move inventory pile-ups of the past year or so.

These offerings are being linked to low interest rates, thus seducing consumers, in some cases, in the same manner that US motor-vehicle manufacturers are offering zero financing packages on the purchase of new motor cars, etc.

Conclusion: The US is, still, not out of the economic woods.

Employment figures, going forward, will be critical to income growth, cascading down to consumer spending, thus fueling the economy.

The fall in equity prices and the lagging rise in corporate spending are impacting on the overall economy.

The decided dent in investor confidence, brought about by scandals, such as the WorldCom/Qwest Communication, et alii, will, naturally, have to be overcome in the course of the months ahead.

And that will be a very tough nut to crack.

If the consumer cannot be whipped up to toddle down to the local store, the US could sink back into recession.

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