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THE CONUNDRUM OF U.S BUSINESS : WHAT SHALL WE DO ABOUT OUR DEBTS ?

Many companies, worldwide, are diverting larger and larger proportions of earnings – when they can be recognised, that is – to debt reduction.

This is done, often at the expense of further and much-needed investment, especially in vertically integrated entities.

Concerned that Management will not be able to see the wood for the trees, so to speak, being able to operate without worried creditors, knocking at corporate doors, is, today, becoming more and more of an urgent consideration, superseding all else.

The growing concerns at board level are that earnings of today can disappear, or fall, considerably, leaving Management unable to meet debt service and principal repayments.

In order to attack these perceived, potential prospects, many a Management is reducing debt as much as possible while the cash is still available.

Manufacturing/operating infrastructure, within many companies, today, is crumbling, or is being eroded, slowly, because the use of older technology in day-to-day operations is making it increasingly difficult to keep pace with the demand of modern business trends and consumer demands.

As these companies become less efficient, they, and/or their customers, will be taken over by those companies, which are able to compete, effectively, having in place that which is required in order to be able to meet the demands of industry and consumers.

Cutting back on investment spending is unlikely to be the way to move forward; it could, well, become a retrograde step at the end of the day.

There is a well-known axiom that states that to be stagnant is to make a move to the rear.

Certainly, such measures as cutting back, drastically, on investment spending, will lead to job cuts, rising unemployment, and, it follows, consumer spending will sag, even further.

Lucent Technologies Incorporated of the US announced, just last Wednesday, its tenth consecutive quarter of losses: $US2.90 billion for the quarter, ended September 30, 2002.

At the beginning of October, Lucent Technologies announced that it would be shedding 10,000 more workers.

The giant telecommunications equipment manufacturer said that sweeping cost cuts had reduced losses, but the company continues to maintain that further losses are on the cards.

It is clear that Lucent Technologies is forsaking its past corporate philosophy in order to stay in the game.

But, it is quite possible that it could lose the game, the set, and, eventually, the match.

The question is, of course, whether or not Lucent Technologies will fall further behind its competitors, thus making it vulnerable to more losses and, perhaps, causing it to downsize its facilities even further.

One has seen, of late, many companies fall by the wayside, for one reason or another, due to their inability to compete or to meet obligations as they fell due.

The ratio of corporate debt in the US to the **G**ross **D**omestic **P**roduct (**GDP**: The total value of goods and services, produced in a country within a specified period of time) rose quickly and most pronounced in the US in the 11 years, between 1991 and 2002, according to the US Federal Reserve Board.

The Fed said that the Ratio of corporate debt to GDP rose from about 33 percent to about 55 percent.

For the years, 1997 to 2002, interest cover/net profits, as a proportion of net interest, fell from about 53 percent to about 27 percent.

Since the year, 2000, there has been a decided decline in the net worth of many US corporations – and the rot continues, unabated, for the most part.

Nortel Networks Incorporated of Canada is a classic example of such a situation.

In the past few years, this company, once the largest employer in Canada, was reduced to crawling on its proverbial knees, with its share price, being traded at about one hundredth or more off its high of a just a few short years ago.

For Nortel Networks, of course, there are grave doubts as to whether or not it will be able to survive the current downturn in business, internationally.

The decline in the net worth of many a US corporation has highlighted and underscored the problems of the high-debt exposure of these corporations as banks and other creditors look askew at the collateral, formerly valued at much higher levels, and today, being used to secure part of all of their borrowings.

The US Federal Reserve Board has confirmed that the economy is *'sluggish'*, following its survey of regional activity.

The findings of the US Federal Reserve, in its so-called *'Beige Book'* – which refers to the colour of the cover of its publication – collates the findings from 12 regional banks.

The latest edition of the Beige Book, covering August and September, indicates slowing retail sales and *'tough'* and *'stagnant'* manufacturing conditions.

As for the job market, it is *'lacklustre'*, the US Fed declared.

US corporations, today, are struggling to generate sustainable profits' growth – with little success, it seems – but the corporations are mind-bent on achieving their goals by cost controls, which must mean that investment spending will be curtailed.

As a consequence, the labour market will continue to be weak, thus confirming that which The Fed has, already, noted.

The knock-on effect will be continued anemic consumer spending.

And, it follows that the equity markets of the US can go nowhere, very fast.

<u>Poverty In The US</u>

The United States Department of Commerce made a startling pronouncement, recently, but it appeared to go almost unnoticed by many economists and financial analysts.

What this important branch of the US Government discovered was:

> *'After falling for four straight years, the nation's poverty rate rose from 11.3 percent in 2000 to 11.7 percent in 2001. Median household income declined 2.2 percent in real terms from its 2000 level to $*(US)*42,228 in 2001 .*
>
> *'The poverty rate and the number of poor increased among several population groups between 2000 and 2001, including all families, married-couple families, unrelated individuals, non-Hispanic Whites, people 18*(years)*-to-64* (years) *and the native population.'*

The Department stated that there had been an increase in the 2001 year of about 1.30 million people in the US, who fitted the definition of being on or below the poverty line* -- 32.90 million people versus 31.60 million people.

That would indicate that nearly 12 percent of the total population of the United States fitted the bill for being considered in the category of being a statistic within the definition of poverty.

That number of people, to put it in perspective, is equivalent to about half of the total population of the United Kingdom.

The following table is lifted from the US Government's Department of Census:

Commenting on the findings of the Census Bureau's Housing and Household Economic Statistics Division of The Department of Commerce, Mr Daniel Weinberg, the Chief of the Division, said:

> *'Like the last year-to-year increase in poverty in 1991-1992 and the last decrease in real household income in 1990-1991, these changes coincided with a recession …*
>
> *'Like the increase in poverty, the decline in real median household income between 2000 and 2001 coincided with the recession that started in March 2001 … The decline was widespread. With the exception of the Northeast, where income was unchanged, all regions experienced a decline, as did each of the racial groups …'.*

*** The US Department of Commerce defines poverty as follows:**

1. Average poverty threshold for a family of 4 is $US18,104 in annual income;

2. Average poverty threshold for a family of 3 is $US14,128 in annual income;

3. Average poverty threshold for a family of 2 is $US11,569 in annual income; and,

4. Average poverty threshold for unrelated individuals is $US9,039 in annual income.

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