LOOKING AT DR GREENSPAN'S PROGNOSTICATIONS :
A *'SOFT SPOT'* OR A *'MUSHY SPOT'* ?

Statistics are terrible things because they have the ability to be used to prove a great deal – or absolutely nothing.

In fact, there is the logical fallacy, known as *'Figures Prove'*.

Every student of philosophy learns about this logical fallacy in the first year of her/his studies (or used to learn about this logical fallacy in this economist's day at university).

When the US Government churns out its data, indicating what happened in the US, during this period or that period, one must always bear in mind that:

(a) The figures may be one month, 2 months or more months out of date;(b) The sampling methods, used to compile the data, may be suspect;

(c) Consideration should be given in respect of the data with regard to the necessary adjustments, which may or may not have been factored in, in order to compare apples with apples; and,

(d) Conclusions that the US Government reaches, based on its statistics, may be valid or invalid, depending on the completeness or otherwise of the data.

Last Wednesday, the most important economist of the world, Dr Alan Greenspan, testified to the Joint Economic Committee of the US Congress, ending his short testimony with the statement:

> *'In summary, as we noted last week* (the week, ended November 8): *"The Committee* (The Federal Open Market Committee of the US Federal Reserve Board) *continues to believe that an accommodative stance of monetary policy, coupled with still-robust underlying growth in productivity, is providing important ongoing support to economic activity. However, incoming economic data have tended to confirm that great uncertainty, in part attributable to heightened geopolitical risks, is currently inhibiting spending, productivity, and employment. Inflation and inflation expectations remain well contained." In these circumstances, the Committee believed that the actions taken last week to ease monetary policy should prove helpful as the economy works its way through this current soft spot.'*

While, undoubtedly, Dr Greenspan is, without question, the most important economist in the world, today, that does not mean that he is anywhere near the best economist in the world, today.

Not by a long shot.

Be that as it may, his testimony to the Joint Economic Committee did say that the US economy has hit, what he termed, a *'soft spot'*.

TARGET's translation of a *'soft spot'*: The economy is not advancing, or not advancing very much, or even at a very satisfying pace, as far as the US Government is concerned.

Of course, Dr Greenspan has to rely, completely, on the statistics, compiled by various departments of the US Government; and, he has to pray that these departments' analyses are accurate and are based upon the findings of various surveys and are not the figments of the imagination of the people, viewing the data.

Dr Greenspan outlined the factors that are, presently, weighing on the US economy:

1. The lengthy adjustment of capital spending;
2. The fallout from the revelations of corporate malfeasance;
3. The further decline in equity values; and,
4. The heightened geopolitical risks.

He, also, said:

> *'The consumer* (in the US) *until recently has been the driving force … Faced with falling equity prices, uncertainty about future employment prospects, and the emergence of the terrorist threat, consumer spending has slowed over the course of the past year, but has not slumped, as some had earlier feared it might …'.*

The above statements mirrored that which TARGET has been saying for months and was, to some extent, published in last Wednesday's TARGET Intelligence Report, Volume IV, Number 215.

Cutting through all of Dr Greenspan's waffle of last Wednesday, what he said was that US economy is going backwards, not forward.

To stand still, one must realise, is, in essence, to take a retrograde step.

Looking At The Stats

TARGET has to be just as careful as Dr Greenspan's people in trying to analyse data because this medium, as with the good Dr Greenspan, has to rely, completely, on the same statistics, all of which have been compiled by various branches of the US Government.

According to The **B**ureau of **E**conomic **A**nalysis (**BEA**), the year 2001 saw a *'mild'* economic slowdown because of the strong growth in Real **G**ross **D**omestic **P**roduct (**GDP**: The total value of goods and services produced in a country over a period of time) for private services-producing industries that helped to offset sharp declines in Real GDP for private goods-producing industries.

The BEA said that Real GDP grew 0.30 percent in 2001 though growth rates varied widely among industries.

Growth was led, the BEA noted, by large private, services-producing industries, such as communications (12.30 percent); retail trade (4.60 percent); finance, insurance, and real estate (2.80 percent); and, services (0.90 percent).

However, the BEA went on to state that declining product in manufacturing was steep in 2001.

Durable-goods manufacturing decreased 5.20 percent, Year-on-Year, and non-durable-goods manufacturing decreased by about 7.10 percent.

The overall reduction in staff levels in the US and other cost-cutting measures, especially in the services sector, caused, or was seen to cause, growth in some industries.

However, Real GDP decelerated for several services-producing industries in 2001: Retail trade decelerated to 4.60 percent in 2001, compared with 7.50 percent in 2000; finance, insurance and real estate decelerated to 2.80 percent, from 6.20 percent; and, services decelerated to 0.90 percent, from 3.30 percent.

Growth in communications was 12.30 percent on both 2001 and 2000, it appears.

As for transportation-by-air and the hospitality industry – hotels, restaurants and the like – declines were seen in the Real GDP, which was lowered by 0.10 percent (the result of the September 11, 2001 incident, without question).

For the month of September, in respect of *'Personal Income and Outlays'*, the BEA noted that *'Personal consumption expenditures decreased $US29.60 billion, or 0.40 percent'* in the month of September, compared with the August figures.

During September, the BEA said: *'Personal income increased* $(US)*37 billion, or 0.4 percent, and disposable personal income increased $*(US)*36.8 billion, or 0.5 percent …'*

In terms of the buying power of a 1996 dollar, today, personal consumption expenditures slumped 0.60 percent in September, compared with August, this year.

As for wages and salaries, the BEA had this to say:

> *'Private wage and salary disbursements increased* $(US)*27.8 billion in September, compared with an increase of $*(US)*23.6 billion in August. Goods-producing industries' payrolls increased $*(US)*1.5 billion, compared with an increase of $(*US) *5.1 billion; manufacturing payrolls increased $*(US)*0.3 billion, compared with an increase of $*(US)*1.8 billion. Distributive industries' payrolls increased $*(US)*8.0 billion, compared with an increase of $*(US)*3.2 billion. Services industries' payrolls increased $*(US)*18.2 billion, compared with an increase of $*(US)*15.4 billion. Government wage and salary disbursements increased $*(US)*1.9 billion, compared with an increase of $*(US)*3.5 billion.'*

To summarise: Mr and Mrs America are not spending a hell of a lot, holding back all that they can for fear that there may not be a pay cheque in the near-term future.

No doubt, the BEA's findings refer to the *'soft spot'* to which Dr Alan Greenspan was alluding when he addressed the US Congress, last Wednesday.

Lastly, the US Department of Labour, just last Thursday (and few people appeared to read this release), in publishing its statistics with regard to the number of insured people without a pay cheque for the week, ended November 9, said that it stood at 3,646,000, an increase of about 89,000 people in a period of just 7 days (these statistics are seasonally adjusted).

However, smoothing out the dips and rises, the 4-Week Moving Average for the number of people, who were insured under the US Government provisions for unemployment insurance, seasonally adjusted, was 3,581,000, which was down by about 11,250 people of just 7 days prior.

However, the insured unemployment rate, seasonally adjusted, stood at 2.90 percent for the week, ended November 9, which was up from the previous week when the figure stood at 2.80 percent.

The determination of the US Federal Reserve Board, in lowering the Federal Fund Rates to 0.75 percent was done as a matter of some urgency, without question, because this is the rate of interest that banks in the US lend money to other banks, overnight: Emergency lending.

It was noted by TARGET that that rate was a 41-year low.

A *'soft spot'* or a *'mushy spot'*?

Dr Greenspan's testimony of last Wednesday should have resulted in the red flag of danger, being hoisted, and it did in some boardrooms.

But, as is so often the case, short-term gains took precedence over long-term considerations.

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