THOSE DAMNED STATISTICS !

The trouble with statistics is that many people tend to rely on them.

Conclusions, drawn by those perceived to be the elite, super-intelligent people, especially those of Wall Street, Bay Street, Thread Needle Street, etc, tend to be wrong, more times than they are right.

A few perspicacious people in positions of power in a handful of Western countries are known to have refused, on occasions, to permit the proliferation and/or promulgation of certain governmental statistical information – for fear that somebody just might try to make use of the information.

And, then, draw wrong conclusions.

The above is what appears to be happening on US and other equity markets of late: Many investors, spurred on by vested interests, who have quotas to fill or who are intent on maintaining certain price levels of certain equities, are drawing the wrong conclusions from the right statistics.

Without singling out any particular US Government statistical release of the past month or so, or naming any of the many irresponsible and/or criminally negligent investment houses and/or senior officials of certain publicly listed companies, suffice it to state that there is no definitive indication that the US economy is coming out of the proverbial economic mire of the past few years.

However, it is true that certain sets of statistics, taken in isolation, could be used to support one or more theories, heralded by certain investment houses of merchant banks/stockbrokerages, etc.

As Moses must, rightfully, be considered the worst navigator that the world has ever known – 40-odd years, looking for a way out of the Sinai Desert is a great deal of time, considering that the area of the entire Sinai Peninsula is only about 23,500 square miles – so it must be held that the US economy has yet a very long road to traverse.

It is accepted that there are some encouraging signs in respect of certain aspects of the US economy, but many of those signs must be weighed, carefully, in the light of that which came before the release of the latest set of statistics.

Many *'darlings'* of the US stock markets have been reporting that their profits of the last quarter/half-year/year are an improvement of this percent or that percent, compared with the like period, one period/year earlier.

However, what one has to bear in mind is that, in the previous period/year, these same companies wrote off, or made provisions for, tens of billions of dollars, sacking huge wads of employees, and sold off many subsidiaries/associates/investments etc in order to try to become leaner and meaner.

Some *'darlings'* succeeded; some *'darlings'* failed.

The failures made the headlines and caused tens of billions of dollars of investors' money to be lost, forever.

Today, some 12 months later, management of the successfully repositioned corporate entities are able to state to shareholders that things are looking up, the entities' size, having been shrunk down to manageable proportions, and payrolls, being considerably smaller than that of the previous period/year.

Since March, this year, there have been, without question, a number of very positive international events that have come to pass:

1. There has been no profound destabilisation of the status quo in the Middle East, following the *'liberation'* of Iraq by the victorious military forces of the brave **U**nited **S**tates (US) and the **U**nited **K**ingdom (UK);

2. The Iraqi, 21-day war was a very nice, short one, with a minimum number of US and UK casualties (there are, as yet, no accurate statistics about Iraqi deaths/casualties, civilian or military); and,

3. There is a strong possibility of an enduring peace in the Middle East (excluding Israel and the Palestinians, of course), thus guaranteeing a steady supply of oil to the US – which is very important for the largest and most-important economy of the world.

The above is, by no means, a comprehensive list of events that has been documented in the past 3 months or so, but the list, probably, includes the most important considerations, as far as global economics are concerned.

On the US corporate front, in the past year, the following has been accomplished, either by design or accident:

1. Many corporations have dramatically reduced recurrent expenditures; and,

2. Cash flows have recovered, substantially.

On the negative side of the ledger:

1. Workers and consumers of the US have had to tighten belts more than one more notch;

2. Layoffs, by the hundreds of thousands, are weighing heavily on consumers;

3. Fiscal policies by such countries as the US and the 12-nation eurozone have dampened the prospects and impact of a quick economic recovery, internationally; and,

4. Any seemingly economic recovery will be prolonged and hard to track, especially in the initial stages.

Investor fears will only be ameliorated over time; and, such fears must follow an improvement in the macroeconomic environment.

(Macroeconomics, as far as **TARGET** is concerned, is defined as being the study of the overall aspects and workings of a national economy, such as income, output, and the interrelationship among diverse economic sectors)

Internationally, it is only too apparent that the world's economies, and especially those economies of the Western World, are shaky – terribly shaky.

Just last week, the President of the **E**uropean **C**entral **B**ank (ECB), Mr Wim Duisenberg, remarked that the 12-nation eurozone was in even worse economic trouble than had, hitherto, been realised.

In his quarterly appearance before the European Parliament, Mr Duisenberg said that the ECB had cut its forecast for eurozone growth for this year, from 2 percent to between 0.40 percent and 1.00 percent.

He said:

'Economic growth in the first half of 2003 is likely to have been weak … very weak, and expectations for annual average growth of this year and 2004 have had to be scaled back.'

No nonsense, here: Just the facts.

For the eurozone, there has to be grave concern about the prospects of deflation, coming to pass at the tail end of this year.

The US is trying, obliquely, to cause its economy to be reflated by pumping into it about $US200 million, this year, and another $US200 million in 2004.

This will come about via tax cuts and increased child benefits, etc (Please see last Wednesday's TARGET Intelligence Report, Volume V, Number 108)

In **TARGET**'s view, the US President's plan is unlikely to succeed to the extent that his advisers in the US Administration have suggested, by injecting a little cash into the stalled economy, but one will have to wait to see whether or not it will have much of an impact, overall.

Inflation or Deflation ?

One has to weigh what is worse for an economy: Inflation or deflation?

As the US dollar depreciates against other *'hard'* currencies, it will have a decided impact on imports, which will become relatively more expensive to US corporate importers, which will be hard-pressed to pass on additional costs of operations and reduced profit margins to US consumers.

Lower oil prices, reverse governmental subsidisation by countries, such as the **P**eople's **R**epublic of **C**hina (PRC), Japan, South Korea, etc, a struggling US economy, lumbered by its weak labour market, must take their respective tolls on the American economy in the fullness of time.

That is, if one does not see an immediate impact, materialise on equity markets.

With more than $US1.30 billion of daily 2-way trade between Canada and the US in jeopardy, due in part to the weaker US dollar, Canada's economy could, before the end of this year, start to feel the strain.

There is every probability that Canada's economy will start to decline, dramatically, before the year is out.

If truth be known, the dry rot is likely to have infested the Canadian economy, already.

The value of the Canadian dollar vis-à-vis the US dollar has, probably, hit close to its zenith, for the time being, and it is likely to start its descent in terms of the US dollar from hereon in, subject, of course, to the rate of the de facto devaluation of the US dollar, internationally.

The effects on economies, round the world of a weaker US dollar have yet to rear its head, but it will, without question.

One may expect to see higher prices for US imports, for instance.

This will become most noticeable in the prices of imported motor vehicles into Continental US – and that statistic is likely to become available within a month or so.

For certain, the exports of US goods and services will be given a fillip by the weaker US dollar, but one has to weigh the benefits of a depreciating US dollar against the rising price of imports.

Oil imports, for instance, will, de facto, be more expensive – and the price of oil in the US is terribly important to the manufacturing sector of the economy as well as consumers.

The US has embarked on a course of spending more than the country is earning – which is, in essence, inflationary – and many economists suggest that, long term, this policy may well prove to be disadvantageous.

What is not good for the US economy is bad for the rest of the world.

The statistics, presented last Friday by The Bureau of Economic Analysis of the US Government, stated that there had been a goods-and-services deficit for the month of April of about $US42 billion.

In March, the goods-and-services deficit was about $US42.90 billion.

Exports from the US fell $US1.80 billion in April to about $US81 billion. That is a fall of 2.17 percent, Month-on-Month.

One may expect to see the May export figures improve, thanks to the depreciating rate of the US dollar against the currencies of the major trading partners of the largest single economy of the world.

<u>The Global Picture</u>

A very positive aspect of the US Administration, led by US President George W. Bush, is that it looks at the global picture in the realisation that that which affects certain regions of the world could well, in the fullness of time, cascade down the line to the US.

That, in essence, was one of the prime reasons that the US attacked Iraq and ousted the cruel and despotic Government of the Saddam Hussein.

President George W. Bush felt that he had to initiate the auction with a preemptive bid (strike), with or with a mandate from the United Nations.

The US Government realises that there are about 3 billion people in the world, living in absolute poverty: A festering sore in places, such as the Middle East and on the African Continent, where human life appears to be worth less and less with the passing of each day.

President George W. Bush's team is trying, in many ways, to combat international poverty and its related knock-on effects on the rest of the world.

Last week, the US Treasury Under Secretary, Mr John B. Taylor, testifying before The House Sub-Committee on Domestic and International Monetary Policy, Trade and Technology of the House Financial Services Committee, introduced the US Administration's rationale in respect of the Millennium Challenge Account, to be known as the MCA.

Mr Taylor said, among other things:

> *'… the (US) Administration has developed a new economic growth agenda aimed at reducing poverty around the world. The MCA is one part of this agenda. The agenda focuses on channeling more funds to countries that follow pro-growth policies, and on structuring our contributions to create incentives for specific measurable results…*
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> *'The MCA operates on the principle that aid is more likely to promote economic growth and raise living standards in countries that are pursuing sound political, economic and social policies. It also seeks to integrate measurement and evaluation into the design of activities to ensure that aid is working.*
>
> *'Sustainable poverty reduction can only be achieved via productivity growth. Productivity is the amount of goods and services that a worker produces per unit of time with the skills and tools available. If you want to reduce the number of countries with low per capita incomes, then you have no choice but to increase productivity in those countries. And the higher the rate of*

productivity growth, the faster poverty will decline. Simply put, the ticket out of poverty is higher productivity jobs.

'Productivity depends on two things: capital per worker and the level of technology. If there are no impediments to the flow and accumulation of capital and technology, then countries that are behind in productivity should have a higher productivity growth rate. They should catch up, and we have seen many countries catching up over the years – such as South Korea, Chile, and Botswana. However, many of the poorest nations still have had low and stagnant productivity and income, and they are not catching up. More and more evidence has been accumulating that this is due to significant impediments to investment and the adoption of technology.

'These impediments can be grouped into three areas. First, poor governance — the lack of rule of law or enforceable contracts and the prevalence of corruption — creates disincentives to invest, start up new firms, and expand existing firms with high-productivity jobs. This has a negative impact on capital formation and entrepreneurial activity. Second, weak health and education systems impede the development of human capital. Workers without adequate education do not have the skills to take on high-productivity jobs or to increase the productivity of the jobs they do have. Third, too many restrictions on economic transactions prevent people from trading goods and services or adopting new technologies.

'Poor economic policies, state monopolies, excessive regulation, and the lack of openness to trade are all examples of restrictions that reduce the incentives for innovation and investment that are needed to boost productivity.

'The Administration's approach to assisting developing nations to increase their productivity growth is to increase aid to countries that are taking actions to remove these impediments by following pro-growth policies …

'In summary, the MCA is an operational action plan to use taxpayer resources to help increase economic growth and reduce poverty around the world…'

This appears to be an ambitious and seemingly meritorious agenda for the Bush Administration.

However, as the Texan in the Whitehouse would agree: There ain't no quick fix; and, there ain't no free lunch.

There are costs, involved in the above-outlined plan of the US Administration, but, on the other hand, it must be considered an international tonic to note that the only international super-power is paternalistic and has a seemingly deep sense of responsibility to humankind.

Regardless of any hidden agenda, assuming that there is one, the MCA plan of action appears to be a good one because, among other things, it views the world as **TARGET**'s analogy of the international apple pie: Every ingredient, which goes to produce the pie, adds, importantly, to the finished product.

The lack of sensitivity of the plight of the hungry and the downtrodden was one of the many flaws of the Roman Empire: Successive leaders of Rome never, really, appreciated the importance that one country's economy could have on another's, and of the inter-relationship of one set of conditions within a country to others.

Rome gave the world codified law, but not any depth of understanding in the administration of the law.

This aspect of Roman life was made abundantly clear by the way in which corruption was accepted (and expected) as a perquisite of high office, while others, less fortunate in respect of their conception in the womb may be crucified for being interlopers on the rights of the rulers and/or of the rich and famous.

Thus far, the US Government of President George W. Bush has not been extremely successful in bringing about any sustained or material changes to places, such as Afghanistan and Iraq, however, time and tide may well prove that the US Government's policies toward its charges – as surely Afghanistan and Iraq are, today – are embedded in solid foundations.

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