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DON'T BELIEVE EVERYTHING YOU HEAR

It is said that if a falsehood is perpetrated a sufficient number of times, it may well result in fiction, becoming fact.

Religious zealots do it all the time, don't they?

Prior to the onset of the 21-day war, the **U**nited **S**tates (US) guaranteed to the world that there were weapons of mass destruction, hidden in Iraq.

That was the rationale for the US and the **U**nited **K**ingdom (UK) to declare war on Iraq, even though, at international law, these 2 powers had no mandate from the United Nations so to do.

The suggested and, then, promised apparition of weapons of mass destruction, held by the former Regime of Saddam Hussein, was repeated so many times and by so many important people, such as US Secretary of Defense Donald Rumsfeld, US Secretary of State Colin Luther Powell, and all the way up to the President of the US, Mr George W. Bush, that the world, strongly, believed that they would be found.

Even in the UK, Prime Minister Tony Blair told Parliament that Saddam Hussein and his cronies had to be stopped due to intelligence that had been shown to him by the US Government's Central Intelligence Agency.

The world waited.

It is, still, waiting for the Iraqi weapons of mass destruction to be displayed in order to justify the killings in Iraq, of the soldiers of the army of Saddam Hussein and of the estimated thousands of Iraqi civilians, who died in the slaughter as US and UK troops sliced through the Iraqi forces as a hot knife, slices through soft butter.

And, now, we have the stock markets of the US, moving up again, as one is told that the US economy will perk up in the final half of this year.

There is no tangible evidence to support the many and varied suggestions of a turnabout in the economy of the world's only superpower; and, only Wall Street gurus and a couple of senior officials of financial institutions – who have been terribly wrong in the past – seem to have seen that apparition.

But, because the falsehood has been perpetrated a sufficient number of times, investors have started to believe it.

That is until the tail end of last week when people, started to have second thoughts.

And, then, the castles of sand started to erode and crumble by the winds, blowing in from the sea of truth.

Last Monday, there was yet another Wall Street boomlet, as a couple of major financial institutions, which, in the past year or so, had taken a *'bath'*, reported that profits were up, considerably, in the second quarter of this year.

Officials of these institutions said that things had looked up due to revenue from credit cards, mortgage lending and investment banking.

When interest rates are low, as they are today, down to 45-year lows, in fact, naturally, the *'spread'* for banks is huge, relative to when interest rates are high.

Thus, banking profits may appear to climb faster in times of bearishness than in times of bullishness.

In addition, many banks' and financial institutions' baselines had been moved to much lower levels, in the past year or so, so that any positive figures, now, have the appearance of a solid improvement in the banks' and financial institutions' performance, relative to the time that there were massive provisions and write-offs.

TARGET's opinion about the economy of the US has been unflinching and resolute for some time: There is every indication that things could well continue to be less than satisfactory in The Land of The Free and The Home of The Brave, during the latter part of this year.

<u>Looking At The Facts</u>

On July 1, 2003, important statistics started to be known, with US manufacturing, having stagnated, during the month of June, with May's construction spending, posting the biggest, one-month drop in more than a year.

Putting together all of the factors, relating to the economy of the US, it was clear that it had been unable to gain any traction and, as such, it was slipping sideways, in some areas, and down in others.

It must be borne in mind that manufacturing in the US accounts for about 17 percent of the total economy.

The US **I**nstitute of **S**upply Management (ISM) said that its gauge of national factories rose to 49.80 points in June, up from 49.40 points in May.

The gauge had failed to achieve a figure of 50 points, which is the level that divides growth from contraction.

Simply put, the US economy is not growing; and, the statistics supported the strong suggestion that output in the US is continuing to shrink.

In respect of construction spending, according to the US Government's Bureau of Census, the figures for May 3, 2003, came in at $US869.80 billion, down from April's figure of $US885 billion, seasonally adjusted.

If it is accurate to state that private construction spending is a reasonable indicator of business confidence and access to capital, then, the US economy is showing signs of being terribly tired.

According to The Bureau of Census, private residential building spending in the month of May was about $US445.40 billion, down, Month-on-Month, from the April figure of $US449.50 billion.

Summarising the situation, in broad-brush strokes, the total value of construction spending dipped by about 1.72 percent in May, compared with April, while the value of private residential spending fell by about 0.91 percent, Month-on-Month.

The statistics, churned out by The Census Bureau, indicated that, since the beginning of this year, there has been a steady decline in construction spending, with each month, seeing negative figures, right across the board.

The figures were in spite of record-low interest and mortgage rates in the US.

While the Census Bureau statistics are a little dated – 2 months' lag time – they, nevertheless, give an indication of national construction activity, although there are no regional breakdowns presented.

In respect of manufacturing in the US, last Thursday, Manufacturers Alliance (MAPI), which provides some indication as to manufacturing, such as Profit Margins, Research and Development spending and investment plans of industrialists, issued its findings for the second quarter of 2003.

The second quarter findings of the MAPI Index was a figure of 60 points, off by about 4.76 percentile points, compared with the first quarter figure of 63 points.

The MAPI Index has been falling, steadily, since the fourth quarter of 2002, when it stood at 67 points.

The MAPI Index comprises, among other things, the New Orders Index, the value of which was about 53 points for the second quarter of this year.

Compared with the first quarter figure of 67 points, the New Orders Index has shed nearly 21 percentile points.

The Jobless Shock

While everybody and his cat on Wall Street were hailing the end of the bad times, just last week, the US Department of Labour announced that Initial Claims for Unemployment Insurance had jumped to 439,000 Claims for the week to July 5, 2003, up from 434,000 Claims, compared with the week, ended June 21, 2003.

On March 8, 2003, Initial Claims for Unemployment Insurance stood at about 420,000 Claims.

That put the 4-Week Moving Average at about 427,000 Claims, up by about 1,000 Claims, compared with the week of June 28, 2003.

The figure for the 4-Week Moving Average for July 5, 2003, was exactly the same figure as The Department of Labour announced for the week of May 24, 2003.

As for Continuing Claims for Unemployment Insurance, they stood at about 3.82 million Claims, as at June 28, 2003, the latest figures, seasonally adjusted.

This is the highest level since the 1980s when the unemployment rate stood at about 10 percent.

The unemployment statistics seem to reinforce the suggestion, from a number of objective sources in the US, that the US economy is far from being out of the woods.

While all this was going on, the cost of energy – fuel oil, natural gas, petrol, etc – continued to rise, causing a squeeze on disposable income in the pockets of consumers.

In its Weekly Chain Store Sales Index, compiled by The Bank of Tokyo-Mitsubishi Ltd and UBS Warburg, the week of July 5 saw The Index rise by about 0.70 percent.

It was the largest gain since the week of May 3, 2003.

However, the gains of the previous 9 weeks were only 0.60 percent, indicating that in-store promotional activities, impulse buys and discounted items (in order to clear old stocks) were, probably, responsible for the small gain.

Year-on-Year, the growth in chain-store sales remained weak, at about 1.10 percent.

Another factor to take into consideration is that chain stores, in order to clear stocks, are offering large price cuts, sometimes at below cost.

(Reliance on the statistics, compiled from this source, cannot be considered very reliable since the information is far from being comprehensive due to the limited number of respondents, which constitute The Weekly Chain Store Sales Index.)

Turning to the prices of imported goods into the US, they rose by about 0.80 percent for the month, ended June 3, 2003, compared with the May 3 figure.

Much of the increase was due to the de facto devaluation of the US dollar vis-à-vis its major trading partners, such as Japan and the eurozone countries.

Excluding imports of motor vehicles, the imported price of consumer goods rose from the May figure of 97.90 to 98.10, an increase of about 0.20 percentile points.

Things could get a lot worse before they improve.

Meanwhile, as was widely expected, the US trade deficit continued to widen.

According to the US Commerce Department, the US trade deficit in May was about $US41.84 billion, up from the April figure (revised) of about $US41.65 billion.

The figures represented the largest gap between imports and exports on record.

The global economy is weak – and the US economy is feeling the pressure.

And, yet, investors continue to push up indices on equity markets in the US, with many Wall Street gurus, fanning the flames of jazzed-up investors, who still have a few dollars, remaining in their pockets.

Enough said?

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