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MORE EVIDENCE COMES TO LIGHT: THE FRAGILITY OF THE U.S. ECONOMY IS CONFIRMED

Consumer sentiment appears to be continuing to wane in the **U**nited **S**tates (US) despite statistics, which, under normal circumstances, would suggest that the US economy has started to chug along at a decent speed.

According to the September findings of The University of Michigan, following a poll, compiled and correlated after a telephone survey of about 500 consumers had been completed by The University's Consumer Research Centre, The Consumer Sentiment Index was seen to have fallen by about 1.60 points, to 87.70 points.

That level was the lowest point since the April figure of 86 points.

Albeit small movements, nevertheless, consumer sentiment has fallen for the third time in the past 4 months, according to The University of Michigan.

The dramatic fall-off in employment in the US has to be one of the contributing factors to the findings of this prestigious university.

Since February, this year, Unemployment Insurance Claims continued to stay, stubbornly, at the 400,000-level.

As **TARGET** pointed out in last Wednesday's analysis of the US economic situation (Please see TARGET Intelligence Report, Volume V, Number 182), US manufacturers are loath to add staff to establishment levels – since they are not, totally convinced that the US economy is, in fact, expanding, with consumer spending, increasing.

With supply, outstripping demand by a wide margin (ask Ford, General Motors and DaimlerChrysler about the number of motor vehicles that they are unable to move), it would appear that many US industrialists have very valid reasons not to add new jobs to their establishments.

Whenever there is a weak labour market, in any part of the world, employers, having the upper hand, so to speak, are able to keep the cap on costs and to keep the lid, tightly screwed, on any fresh demands from labour.

As costs continue to rise in the US, with fuel prices, cutting deeply into weekly paypackets and into companies' profit margins, so consumer debts continue to rise.

Hence, consumer confidence wanes.

Substantial tax cuts have helped consumers, somewhat, and the cash rebate cheques (about $US200 per family) must have been a welcome break for the worst-hit consumers.

Also, deflation at the retail level has come to mean that the kiddies are able to be clothed at cheaper costs than pre-2000.

The low interest rates – a 45-year low, in fact – have made it possible for many consumers to be able to pick up goods and services, when required, because debt service is relatively low.

But confidence is a fragile vase, which is easily chipped and broken by the slightest tremor.

<u>Poverty in America</u>

Last Friday, the US Government's Census Bureau released its report about the levels of poverty in The Land of The Free and The Home of The Brave.

Some of its findings were:

> *'The nation's official poverty rate rose from 11.70 percent in 2001 to 12.10 percent in 2002 and median household money income declined 1.10 percent in real terms from 2001 to $42,409 in 2002.*
>
> *'Median earnings increased 1.80 percent for women, who worked full-time, year-round, and 1.40 percent for similar men, and the child poverty rate remained unchanged in spite of the recession …*
>
> *' … about 1.70 million more people were in poverty in 2002 than in 2001 – 34.60 million* (people) *versus 32.9 million* (people). *These estimates reflect the effect of the recession, which began in March 2001 and ended in November of the same year…*
>
> *'The poverty rate and number of families in poverty increased from 6.80 million in 2001 (or 9.20 percent of all families) to 7.20 million (or 9.60 percent) in 2002…*
>
> *'The number of people in severe poverty increased from 13.40 million* (people) *in 2001 to 14.10 million* (people) *in 2002, and the number* (of people) *just above the poverty threshold, 12.50 million* (people), *did not change.*
>
> '*As defined by the Office of Management and Budget and updated for inflation, using the Consumer Price Index, the average poverty threshold for a family of 4 in 2002 was $*(US)*18,392 in annual income; compared with $(US)14,348 for a family of 3; $*(US)*11,756 for a family of 2, and $(US)9,183 for unrelated individuals…*
>
> *'Among people who reported the single race of black in 2002, 24.10 percent were in poverty, higher than the 22.70 percent for those who reported black in 2001. The corresponding figure for those reporting black, regardless of whether they reported any other races in 2002, was 23.90 percent …'.*

There are about 292.19 million people, living in the US, today, making the above statistics somewhat shocking, one would think if one starts to do one's sums.

Looked at from a socialogical point of view, it means that there are about 34.60 million very dissatisfied and very unhappy Americans, many of whom need to be fed and clothed.

Meanwhile, President George W. Bush asks Congress for another $US87 billion to put Iraq back together again.

And, in the meantime, the sons and daughters of Americans are killed, daily, on the streets of Baghdad and other Iraqi cities.

If some of these 34.60 million, poverty striken people of the US should rise on their hind legs, one might hear the chant:

> *'Charity begins at home; and, justice begins next door .'*

If some of these 34.60 million, poverty striken people of the US should become a little irate, they might remind President George W. Bush of the Bible, specifically, Corinthians 13:3–4:

> *'And though I bestow all my goods to feed the poor, and though I give my body to be burned, and have not charity, it profiteth me nothing. Charity suffereth long, and is kind; charity envieth not; charity vaunteth not itself, is not puffed up.'*

In summary, the stage may be just about set in the US for some of those mendicant Americans to make demands on Washington.

One cannot rule out a march to Washington to make demands of the Administration.

The Economic Picture

On September 15, The **B**ureau of **E**conomic **A**nalysis (BEA) released its second quarter findings with regard to international transactions between the US and its trading partners.

This was what The BEA discovered:

> *'The US current-account deficit – the combined balances on trade in goods and services, income, and net unilateral current transfers – was virtually unchanged at $*(US)*138.70 billion (preliminary) in the second quarter of 2003. An increase in the deficit on goods was offset by increases in the surpluses on income and on services and a decrease in net outflows for unilateral current transfers.*
>
> ***'Goods and Services***
>
> *'The deficit on goods and services increased to $(US)123.40 billion in the second quarter from $*(US)*121.60 billion in the first quarter.*
>
> ***'Goods***
>
> *'The deficit on goods increased to $(US)138.00 billion in the second quarter from $(US)136.00 billion in the first (quarter). Goods exports increased to $(US)174.00 billion from $(US)173.30 billion. Small increases in industrial supplies and materials and in consumer goods were partly offset by a small decrease in capital goods.*
>
> *'Goods imports increased to $*(US)*312.00 billion from $*(US)*309.40 billion. An increase in non-petroleum products more than offset a decrease in petroleum and petroleum products. The increase in non-petroleum products was largely accounted for by increases in capital goods and in automotive vehicles, parts, and engines.*
>
> '***Services***
>
> *'The surplus on services increased to $*(US)*14.60 billion in the second quarter from $*(US)*14.40 billion in the first* (quarter). *Services receipts were virtually unchanged at $*(US)*74.00 billion. A decrease in travel was almost entirely offset by increases in all other services categories combined. Services payments decreased to $*(US)*59.40 billion from $*(US)*59.60 billion. Decreases in travel and in passenger fares were mostly offset by increases in all other services categories combined.'*

While much of the above has, already, been published in previous **TARGET** Intelligence Reports, one way or another, unless those findings are looked at in the context of the latest statistics, those findings from The University of Michigan, the US Department of Labour, and The Census Bureau, especially, one may find it difficult to correlate them and to assimilate them into the total US economic picture.

The BEA's findings, among other things, suggest that the US economy is not moving very much, if at all.

Further, the goods and services sector of the US economic portrait is continuing in deficit.

The US Gross Domestic Product

Closer to home, perhaps, were the BEA's second quarter findings in respect of the US **G**ross **D**omestic **P**roduct (GDP).

Looking at the components of the GDP may be an eye-opener for some people, who are not used to examining, closely, government statistics.

The following is lifted from that report:

> *'Real gross domestic product – the output of goods and services, produced by labour and property, located in the United States – increased at an annual rate of 3.30 percent in the second quarter of 2003 … In the first quarter, real GDP increased 1.40 percent.*
>
> *'The GDP estimates … are based on more complete source data than were available for the preliminary estimates issued last month. In the preliminary estimates, the increase in real GDP was 3.10 percent …*
>
> *'The major contributors to the increase in real GDP in the second quarter were personal consumption expenditures (PCE), Federal defense spending, and non-residential fixed investment. The contributions of these components were partly offset by a negative contribution from private inventory investment. Imports, which are a subtraction in the calculation of GDP, increased …*
>
> *'The acceleration in real GDP growth in the second quarter primarily reflected an upturn in Federal defense spending, an acceleration in PCE, and an upturn in non-residential fixed investment that were partly offset by an upturn in imports…*
>
> *'Real exports of goods and services decreased 1.00 percent in the second quarter, compared with a decrease of 1.30 percent in the first* (quarter). *Real imports of goods and services increased 8.80 percent, in contrast to a decrease of 6.20 percent.*
>
> *'Real Federal Government consumption expenditures and gross investment increased 25.50 percent in the second quarter, compared with an increase of 0.70 percent in the first* (quarter). *National defense increased 45.80 percent, in contrast to a decrease of 3.30 percent. Non-defense decreased 5.40 percent, in contrast to an increase of 8.40 percent. Real state and local government consumption expenditures and gross investment decreased 0.20 percent, in contrast to an increase of 0.20 percent.'*

It is only too apparent that *Federal defense spending* added greatly to the seemingly bullish aspect of the GDP for the second quarter of this Fiscal Year.

Also, US exports are not at all that which they are cracked up to be, as the BEA stated, definitively, *'Real exports of goods and services decreased 1.00 percent in the second quarter, compared with a decrease of 1.30 percent in the first* (quarter).*'*

Without the massive amounts of money, being spent on maintaining the US armed forces in Iraq and Afghanistan, the GDP would have been reduced, considerably, on an annualised basis.

Mass Layoffs

The last piece of the US economic jigsaw puzzle that came to light, late last week, was in respect of the number of mass layoffs, during the month of August.

The Labour Bureau's release with regard to mass layoffs came on the same day that Levi Strauss Incorporated announced that it would be slashing another 2,000 jobs in North America, and closing down its 4 remaining factories on the continent.

Eastman Kodak, last Thursday, also, stated that it would be moving much of its manufacturing base to other areas of the world where land and labour costs are less than those of Continental US.

A mass layoff is defined as an incident whereby at least 50 employees are sacked from within a single establishment.

The Labour Bureau of the US Government released the following information, last Thursday:

> *'Employers initiated 1,258 mass layoff actions in August 2003, as measured by new filings for unemployment insurance benefits during the month … the number of workers involved totaled 133,839. Compared with August 2002, both the number of layoff events and the number of initial claims increased, marking the first over-the-year increase in mass-layoff initial claims since May 2002. From January through August 2003, the total number of events, at 13,205, was higher than for the same period a year ago, while the number of initial claims, at 1,316,863, was lower…*
>
> *'Industry Distribution*
>
> *'Temporary help services, with 9,787 claims, accounted for over 7 percent of all initial claims in August. Five of the 10 industries, reporting the highest number of mass-layoff initial claims, recorded their peak level for August this year.*
>
> *'The manufacturing sector accounted for 32 percent of all mass layoff events and 39 percent of all initial claims filed in August, little changed from a year ago (34 and 38 percent, respectively). Within manufacturing, the number of claimants was highest in transportation equipment (9,476, mainly automotive-related), followed by textile mills (7,154), machinery (6,606), and food manufacturing (5,803).*
>
> *'The administrative and waste services sector accounted for 13 percent of events and 12 percent of initial claims filed in August, with layoffs mostly in temporary help services. Retail trade accounted for 8 percent of events and 7 percent of initial claims during the month, mainly in general merchandise stores. Four percent of the events and 7 percent of the initial claims were from the information sector, largely from motion picture and sound recording. Transportation and warehousing accounted for 7 percent of all layoff events and initial claims filed during August, primarily from school and employee bus transportation. Layoffs in construction accounted for an additional 9 percent of events and 6 percent of initial claims, mostly from specialty trade contractors.*
>
> *'Government establishments accounted for 5 percent of events and 6 percent of initial claims filed during the month, particularly in local executive, legislative, and general government agencies. The 7,573 initial claims in this sector were the most for any August since the program began in 1995.*
>
> *'Compared with August 2002, the largest increases in initial claims were reported in textile mills (+5,977) and motion picture and sound recording (+5,409). The largest over-the-year decrease in initial claims was reported in computer and electronic products (-3,527)…'.*

In February, this year, the number of people, involved in mass layoffs, was recorded as being 124,965 workers.

Therefore, August's figure of 133,839 workers is an increase of about 7.10 percent.

The Labour Bureau's statistics indicated, however, that, compared with July's figures (226,435 workers), August's figures are down by about 41 percent.

When looking at the geographic breakdown on the mass layoffs, one notes that those that occurred in California, New York, Illinois, North Carolina, Texas and Ohio accounted for about 55 percent of the total number of layoffs and about 57 percent of Initial Claims for Unemployment Insurance benefits.

What is very evident is that, despite the hype, emanating from Washington, D.C., with regard to (alleged) improvements in the US economy, it is not resulting in putting American workers back on the assembly lines and bottoms into office chairs.

It will be of the utmost importance to economists to see whether or not mass layoffs in September and October decline.

If not, one does not have to wonder as to the direction of the US economy.

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