AMERICA'S JOB LOSSES ARE ASIA'S JOB GAINS:
HONGKONG COULD BE ON THE EDGE OF A BOOM

There is ample reason for one to be optimistic that there will continue to be near-term gains for the US economy, at least – and Asia will be one of the recipients of these gains.

In order for US manufacturers to maintain the momentum of the past quarter, ended September 30, 2003, continued efforts to cut costs without sacrificing the quality of product is essential.

And this is where Asia comes to the fore.

Asia is one, big manufacturing base, as far as the US is concerned.

Motor-vehicle accessories to complete engine blocks and chassis can be manufactured with comparative ease, in the People's Republic of China (PRC), Thailand, the Philippines, South Korea and India, just to mention 5 countries, which have excess capacity to meet the demands of US manufacturers.

Tata Motors Ltd (of India), just last week, signed a Memorandum of Understanding with Daewoo Commercial Vehicle Company Ltd for the acquisition of this South Korean company, which has been in financial trouble for some time.

Tata Motors is reputed to be in the Top Ten Motor Vehicle Manufacturers in the world and is, without question, the largest motor-vehicle manufacture in Asia.

Today, Thailand is a major producer and supplier of electronic components to the US, in addition to manufacturing a great number of consumer items, from sport shoes to electric toothbrushes.

The PRC, proper, produces and even wider spectrum of goods than Thailand, with products, ranging from heavy industrial machinery to condoms to towels to some of the most-sophisticated electronics.

For US manufacturers, today, it would not be in their best interests to see the renminbi revalued, as the US Administration has been trying to achieve, during the past few months.

In fact, a revaluation of the renminbi against the US dollar would work against the US economy because, then, goods, produced in the PRC, would tend to be more expensive to US industry, thus thwarting its efforts to cut costs in order to stay competitive in the international marketplace.

The Hongkong Special Administrative Region (HKSAR) of the PRC will, no doubt, be able to pick up the crumbs from the *'table'* of the PRC, proper.

Vehicle Sales In The US

While the statistics, relating to total vehicle sales in the US for the month, ended October 3, 2003, were not particularly encouraging – because, at 15.60 million units of sales, it represented the lowest levels since at least March, this year – at the same time, it is fact that the pace of the sales was about one percent stronger than that of the like period of 2002.

A negative aspect of last month's motor-vehicle statistics was the lower level of sales of **S**ports **U**tility **V**ehicles (SUVs), classified by the US Government under the nomenclature, *'light trucks'*.

Light truck sales were about 8.60 million units for the month of October, down from 9.10 million units of one month earlier, and 2.10 million units, sold in the month, ended August 3.

In the past year or so, sales of light trucks have been one of the driving forces in motor-vehicle sales.

There is every reason to believe that they will continue to be a dominant factor in this important industry of the US.

The Big Three motor-vehicle producers in the US – Ford, General Motors and DaimlerChrysler – have been offering massive incentives to US consumers, ranging from cash rebates to zero-financing packages.

They are continuing to offer such incentives in order to clear stocks of 2003 models and to make way for the new wave of motor vehicles.

Already, new deals are being offered to consumers, willing to commit to new 2004 models.

Low interest rates in the US – and The Federal Reserve Board has gone on record, stating that such 45-year-low, interest-rate levels will continue for some time – are fueling motor-vehicle sales, in the same way that they have been fueling sales of new homes, as well as refinancing mortgage lending.

For an American family, considering a 5-year financing package on a new motor vehicle, at the current, low interest-rate levels, it is tempting to many, who have a steady source of income: Monthly payments are very affordable.

But the Big Three are not having an easy time of it, nevertheless, because it is still a buyer's market in the US, and Ford, General Motors and DaimlerChrysler are having to fight for every consumer dollar.

In order to meet demands, the Big Three have turned to Asia in order to outsource many motor-vehicle accessories.

Pressure continues to be applied on domestic and international suppliers, alike, because cost-cutting measures, coupled with other initiates and aggressive marketing will be the keys to making a profit ... or losing a bundle and suffer the possibility of losing market share.

The PRC, with its industrial base and a well-established, motor-vehicle industry, has been selected by General Motors, especially, to be an important supplier of accessories for its 2004 models.

Since lower prices for new motor vehicles, in many instances, have not seemed to help to loosen the strings on the pocket books of US consumers, then, added inducements must be found.

But, at the same time, US manufacturers must be able to turn a profit by so doing.

In order, just to stay even at today's sales' levels, incentives and more incentives will continue to be piled, one atop another.

The momentum of motor-vehicle sales cannot stop because the company that does not go forward must fall backwards.

Motor-vehicle sales may well pick up between now and the end of the year due to their higher affordability, the US Government's tax cuts, and the improving economy in The Land of The Free and The Home of The Brave.

But the pace of employment in the US will be the factor to watch since this is a key component to higher sales in the motor industry.

If the growth of employment fails to accelerate, vehicle sales could fall, again.

The Employment Factor

Much was said at the tail end of last week about the employment and unemployment rate of the US for the month, ended October 3, 2003.

It seemed, with a great deal of justification, too, that the labour market in the US was recovering, by leaps and bounds.

In the month of October, net employment in the US increased by about 126,000 jobs.

That statistic represented the biggest, one-month improvement since the beginning of this year.

Revised US Government statistics indicated, in fact, that the recovery had, actually, begun a few months earlier.

The Unemployment Rate was revised down from 6.10 percent in September to 6 percent in October.

The number of unemployed in the US, as at October 3, 2003, stood at about 8,779,000 workers.

This is down by about 579,000 workers, compared with the Unemployment Rate of June 3, when it stood at about 9,358,000 workers.

Since June 3, there has been a steady fall in the number of Americans, who are out of work, according to the US Government's Bureau of Labour Statistics.

The strongest gains for the month were in the fields of the retail trade (plus 30,300 workers), education and health services (plus 56,000 workers), professional and business services (plus 43,000 workers), and leisure and hospitality services (plus 23,000 workers).

However, against this, manufacturers in the US are continuing to cut staff levels.

Since July, US manufacturers have reduced payrolls by about 91,000 jobs.

While this was an improvement on the figures of the previous quarter, when US manufacturers sacked about 164,000 workers, the quarter, ended October 3, is, still, not a sign of hiring more staff.

In order just to keep pace with the growth in the US labour force, there has to be an intake of not less than 150,000 jobs per month – otherwise, the Unemployment Rate will rise, once more.

Job growth in the US is being somewhat stunted by the requirement of US manufacturers to outsource certain jobs to lower-cost places, such as in Asia.

Looking at the number of unemployed workers, applying for Initial Unemployment Insurance Benefits for the week, ended November 1, 2003, it stood at a 34-month low of 348,000 Claims.

It appears, also, that Continuing Claims for Unemployment Insurance Benefits are falling, too.

For the week, ended October 4, 2003, the number of Continuing Claims for Unemployment Insurance Benefits stood at about 3,625,000 Claims.

For the week, ended October 25, 2003, the number of Continuing Claims stood at about 3,511,000 Claims.

If the current trend is able to be sustained and Initial and Continuing Claims for Unemployment Benefits continues, it would suggest that a full-fledged recovery in the US economy is underway.

But a decline in Claims for Unemployment Benefits is not to be equated with improved employment prospects: One factor need not be anything to do with the other.

There are, at least, 3 independent reasons for a decline in Initial and Continuing Unemployment Benefits:

1. Benefits are expiring;

2. Fewer qualified recipients of Unemployment Benefits are making application for their entitlements; and,

3. Job creation prospects are improving.

The third **TARGET** point is known, not to be a factor, leaving only 2 major reasons to be considered.

<u>Consumer Spending</u>

A key ingredient of any improving economy is consumer spending.

And improving consumer spending in the US is not in evidence, at this time.

According to the latest statistics, as compiled by The Bank of Tokyo-Mitsubishi Ltd and UBS Warburg, for the month, ended October 3, 2003, chain-store sales slowed, Month-on-Month.

While there was a 3.20-percent improvement in chain-store sales, seasonally adjusted, it was a long way off from the 5.90-percent improvement, recorded for the month, ended September 3.

In fact, the October 3 figures were the lowest levels since June 3.

The biggest gainers in October were wholesale clubs (plus 9.30 percent), drug stores (plus 7.30 percent), and furniture stores (plus 3.70 percent).

With the lone exception of sales at drug stores, all of the other big gainers saw reduced levels of improvements, compared with the figures, as recorded for the month, ended September 3, 2003.

The growth in sales at chain stores abated in the past month due, in part if not in whole, by the slowing of cash, being available for such purchases.

Mortgage refinancing, tax cuts and rebate cheques, no doubt, fueled consumer spending between June and September, but those monies are no longer available.

And, with no appreciable improvements in the labour markets of the US, there would appear to be every prospect of chain-store sales, falling again.

But the holiday season is upon us, and this is likely to be the best holiday season in the past 4 years, by all accounts.

It will be telling to watch the amount of disposable income that will be spent on the Christmas and New Year seasons.

Whether or not the labour market will improve sufficiently to permit consumers to go on a buying binge for the festive season will, without question, be a determinant factor for the growth in chain-store sales.

-- E N D --

While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.

If readers feel that they would like to voice their opinions about that which they have read in TARGET, please feel free to e-mail your views to editor@targetnewspapers.com or targnews@hkstar.com. TARGET does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.