THE U.S. ECONOMY:
SEVERE GLOOM LURKS ON THE ECONOMIC HORIZON

The prospects for the economy of the **U**nited **S**tates (US) for 2005 seem to be, if anything, severe gloom.

No matter who wins the Presidential race on November 2, 2004, it will make little difference to the prospects of the US economy in the coming year.

Because the economic situation may well have reached a point of no return, for the time being, at least.

And the troubles of the US economy will, inevitably, cascade down to Asia – which *'feeds'* the US economy – with major European economies, guaranteed to follow suit.

Fueled by tax breaks in the US, it appeared to many in the Bush Administration, earlier in the year, that the US economy had been successfully kick-started.

Even President George W. Bush came out and said so in a number of his public speeches to his adoring electorate.

It would not be unfair to state that President George W. Bush engaged in casuistry in order to drive home his point of view about the economy of the only world superpower.

Unfortunately, while President George W. Bush is, without doubt, an honorable man, he appears to have little knowledge of the science of economics or the art of financial planning – as his own dwindling finances have proved, prior to his donning the mantle of office.

TARGET never held the view of President George W. Bush, however, because to cover a rusting hulk with a dab of paint does not stop the underlay of rust from continuing its work of rotting the metal, impairing its natural integrity, which is, after all, the superstructure and the very foundation of the vessel.

At the outset of 2004, the annualised economic growth of the US was about 6 percent.

The economic growth was precipitated by a zero-percent interest rate and a budgetary deficit, equal to about 4 percent of the **G**ross **D**omestic **P**roduct (GDP)*.

The second quarter of 2004, however, was a rude awakening for a number of members of the Bush Administration – because the momentum of the US economy had all but slowed to a crawl … and, then, fell back to about 3 percent of the GDP.

The third quarter may see the US economy put on a bit of a spurt, again, but it is likely to be more than just a flash in the pan.

It would appear that the US economy's growth is due for a decided slowdown.

Here is **TARGET**'s reasoning:

The Findings of The US Government

The US Federal Reserve released the following information, on Friday, October 8, 2004:

> ***'INDUSTRIAL PRODUCTION AND CAPACITY UTILIZATION***
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> *'Industrial production rose 0.1 percent in September after having edged down 0.1 percent in August. The production index was revised up slightly in June and July, but it is now estimated to have been slightly lower in August than previously reported. Manufacturing output declined 0.3 percent in September, and mining output dropped 2.3 percent. The recent spate of hurricanes appears to have had a noticeable restraining effect on production last month. In particular, output dropped sharply in the oil and gas extraction, chemical materials, and petroleum refining industries; combined, the September decreases for these industries reduced the rate of change in total industrial production about 0.3 percentage point. However, the exact magnitude of the effect of the hurricanes on these industries and on industrial production more broadly is difficult to determine. Utilities output surged 5.4 percent in September, in part because of a swing to relatively warm temperatures after unseasonably cool weather in August. For the third quarter as a whole, total industrial production increased at an annual rate of 2.9 percent, and manufacturing output rose at a 4.4 percent rate. Capacity utilization for total industry was unchanged in September, at 77.2 percent, a rate 2.3 percentage points above its year-earlier level but still 3.9 percentage points below its 1972-2003 average.'*

On the same day, The Department of Labour announced:

> ***'Producer Price Indexes – September 2004***
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> *'The Producer Price Index for Finished Goods increased 0.1 percent in September, seasonally adjusted … This increase followed a 0.1-percent decline in August and a 0.1-percent rise in July. At the earlier stages of processing, prices received by manufacturers of intermediate goods edged up 0.1 percent in September, after a 1.0-percent gain in the preceding month, while the crude goods index fell 4.2 percent, compared with a 0.7-percent decrease in August …*
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> *'Among finished goods, prices for goods other than foods and energy turned up 0.3 percent in September, following a decline of 0.1 percent in the prior month, while the consumer foods index rose 0.1 percent in September, after falling 0.2 percent in August. By contrast, the index for finished energy goods turned down 0.9 percent, compared with a 0.2-percent increase in August …'.*

Then, last Wednesday, The Department of Labour released the following data:

> *'Average weekly earnings rose by 3.0 percent, seasonally adjusted, from September 2003 to September 2004. After deflation …average weekly earnings increased by 0.6 percent. Before adjustment for seasonal change and inflation, average weekly earnings were $530.88 in September 2004, compared with $520.33 a year earlier …'.*

Adding up the above paints a picture of the US economy, which would appear to be in contrast to that picture of the US economy, which President George W. Bush is trying to paint for the electorate.

There would appear to be zero prospects for any significant growth in the US economy, either before this year is out or in 2005.

At least, not in the present climate.

Consumer Spending and Investment

From the point of view of consumer spending in the US, investment in business, either domestically or internationally, or even if the US Government embarks on a policy of vast public spending, it is unlikely to produce to impetus that is required to rekindle economic fires in the largest single economy of the world.

Consumer spending in the US accounts for a little less than 70 percent of the GDP.

Consumer spending just about collapsed in the second quarter of 2004.

One notes that the US labour market is extremely weak, with the economy unable to produce at least 150,000 more jobs per month.

That figure of 150,000 jobs per month is the minimum number of jobs that must be created, monthly – just to maintain the present status quo.

In March, April and May, one saw some growth in the uptake of labour.

And, then, it was back to zero growth in June and July.

Management saw no reason to hire more workers and the labour uptake retarded well below 150,000 jobs per month.

The month of August appeared to suggest that, perhaps, US industry was rehiring and that the magic figure of 150,000 jobs per month would return.

It was not born out, however, as September's figures were disastrously below 150,000 new jobs created.

Turning to consumption in the US, this has been fueled, to a great extent, by very low interest rates.

In the 2003-Fiscal Year, the low interest rates resulted in US consumers, buying houses and apartments, which generated an estimated $US100 billion of additional disposable income for US households.

The refinancing of bricks and mortar brought in even more cash for Mr and Mrs US Consumer, thanks to the very low interest-rate structure.

But those good old days may, now, be a thing of the past.

While the windfall of extra income helped the US economy at the tail end of 2003 and the first quarter of 2004, the prospects, today, indicate a reversal of the trend.

As interest rates rise in the US – and this prospect looks to be inevitable – so the burden of shouldering the heavy debt load of US households, in addition to making capital repayments, will become more and more onerous.

Consumer spending will dry up, considerably.

And, thus, the US economy will, as a motor car splutters for a lack of petrol, so the economy will splutter, the economic vehicle, crawling along, until fresh fuel can be found.

At the High Street level, businesses will suffer, many, having to go to the wall.

Offshore outsourcing will, ironically, come to the aid of many a US household, with its cheaper source of consumable goods than can be produced in the US, in the same way that the garments, imported from Asia, helps to keep down inflation in the US.

In such a scenario, it is difficult to think that international investors will look lovingly at investing very large sums of money in the US economy, although, no doubt, international investment will continue to flow, albeit at a slower rate than in the last quarter of 2003 or the first quarter of 2004.

In addition, it is difficult, in such a scenario, to expect domestic manufacturers to invest very much in new capital equipment – while consumer spending continues to wane.

As **TARGET** has, already, pointed out (please see above), industrial production and capacity utilisation is, already, sinking, according to the statistics, released by The US Federal Reserve, which were released on Friday, October 8, 2004.

That would suggest that further investments of a capital nature would be extremely limited, pending a clearing in the consumer fog, enveloping the economy of the US.

Lastly, it is clear that US industry is not able to deliver the goods, internationally, while international competitors are continuing to mop up the field, left vacant by US industry.

Patriotism is one thing: Dollars and sense are completely different, again.

* GDP = The total value of goods and services, produced in a country over a period of time.

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