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MASS LAYOFFS ROSE SWIFTLY IN THE MONTH OF FEBRUARY –
CONFERENCE BOARD STATISTICS ARE WORRYING

The US Government's Bureau of Labour Statistics, a division of the US Department of Labour, published a basket of important statistics, last Thursday, statistics that many people and organisations, no doubt, overlooked because, to be sure, they are not particularly sexy, at least, not at first glance, and such a report rarely receives the attention that, perhaps, it richly deserves.

The Bureau's findings with regard to mass layoffs for the month of February went almost unnoticed and the Popular Press did not give it much space and offered it, seemingly, little weight.

A '*mass layoff*' is defined as being an event where 50 workers or more are laid off from a single establishment.

In a nutshell, The Bureau reported the following:

1. There were 1,280 mass layoff actions, seasonally adjusted, during the month of February;

2. The number of workers, who were given pink slips in February, was about 143,977, on a seasonally adjusted basis;

3. The number of mass layoff events increased by 43 from January;

4. The number of associated Claims, Month-On-Month, rose by about 17,609; and,

5. The February mass layoff events saw the manufacturing sector initiate 419 mass layoffs, resulting in 64,072 workers' Claims, being filed with The Labour Department.

The Bureau stated that the 10 industries, reporting the highest number of mass layoff Initial Claims, not seasonally adjusted, representing about 33 percent of the aggregate number of February's Initial Claims, were:

1. Temporary Help Services	5,581 Claims
2. Automobile Manufacturing	5,561 Claims
3. Motorcycle, Bicycle and Parts Manufacturing	3,043 Claims

Together, the above 3 industries accounted for about 16 percent of Initial Claims.

The Manufacturing Sector of the US economy accounted for about 29 percent of all mass layoff events and 42 percent of all related Initial Claims, filed in February.

The Construction Industry accounted for about 22 percent of February's mass layoffs and about 15 percent of the Initial Claims.

The Bureau stated, also, that the national unemployment rate was 4.50 percent in February, '*essentially* *unchanged from 4.60 percent the prior month and down from 4.8 percent a year earlier. Total nonfarm payroll employment increased by 97,000 over the month and by 2.0 million over the year.'*

According to **TARGET**'s statistics, in the month of December 2006, the number of new jobs, created in the US, was about 226,000.

For the month of January 2007, the number of new jobs that were created fell to about 146,000.

The importance of new-job creation cannot be sufficiently emphasised because a stable jobs market has a cascading effect throughout any economy in addition to being a soothing balm to the population.

Without rising consumer spending in the US, economic growth will start to splutter, then, recede because the driving force for the economy is the spending of the individual.

Individual spending is fickle, however, and any number of things can influence it – in addition to the lack of new jobs, being created within a period of any one quarter.

Thus far, individual spending in the US continues to increase and as long as there is a sufficiency of new-job creation, individual consumption may be expected to rise.

Against this, there are, still, the problems, facing the US housing market and the mortgage-lending market, with the prospects, being very high on any economist's check-list, for foreclosures and personal bankruptcies to escalate in the coming quarter, ending June 30, 2007.

Last Monday, it was announced by the US Commerce Department that sales of new homes in the US fell at an annualised rate of about 3.90 percent in February to 848,000 units.

It was the lowest level of the past 7 years.

For the second, consecutive month, sales of new US homes have fallen to levels, not thought possible, just a few months ago.

Such statistics will, undoubtedly, weigh in on the equity markets of the US as investors become more and more hesitant about making any fresh investment commitments.

And, of course, there are, now, many investors who no longer have the wherewithal to even consider making investments because their concerns are, simply put, trying to make ends meet.

The situation goes much further than this, however, because the sharp drop off in sales of new homes in the US will mean a longer period of time that builders will have to sit on inventories.

Lowering prices may not be sufficient to move inventories and, in the interim, the interest-rate clock is ticking.

It goes without saying that some builders will have to go to the wall.

Add to that scenario is the fact that many mortgage lenders, especially the high-risk takers, known as subprime mortgage lenders, are seeing more and more of their customers come to them with tales of woe.

This makes one start to get a handle on a potentially very precarious situation in the largest economy of the world.

It would appear to be only a matter of time that major, credit-card companies in the US will discover many of their customers, being unable to meet their bills, while motor-vehicle companies and their associated finance entities may be stuck with thousands of repossessed vehicles because the previous owners of these vehicles have found themselves in a financial bind from which they are unable to extricate themselves.

If owners of US homes cannot find the cash to meet mortgage payments in full out of existing incomes, it is more than likely that they will sacrifice the family motor car in order to try to save the family house when push meets shove.

This situation is very worrying and may well hamper the growth and further development of the US economy in the months to come.

<u>The Conference Board</u>

No sooner had The Bureau brought out its findings with regard to mass layoffs than The Conference Board released its findings in respect of the Leading Indicators.

The Conference Board's Leading Indicators are, also, not very sexy to the man-in-the-street, but, ironically, The Conference Board has been especially accurate in predicting the probability of an economic recession, going back to 1950.

The Composite Leading Index of The Conference Board comprises a weighted average of 10 key economic data series, designed to predict economic conditions.

The following table tells the latest tale:

<u>Conference Board Leading Indicators</u>

	February 2007	January 2007	December 2006	November 2006	October 2006	September 2006	August 2006	July 2006
Leading	137.30	138.00	138.40	137.50	137.60	137.60	137.00	137.50
Percent Change	(0.50)	(0.30)	0.70	(0.10)	0.00	0.40	(0.40)	(0.20)

() = negative value

For the first time since September 2006, one sees the first negative reading on an annualised basis.

What it suggests, strongly, is that the US economy is continuing to slow down and at an accelerated rate.

The suggestion is that the Gross Domestic Product – the total market value of a country's output of goods and services that are exchanged for money or traded in a market system over a certain period of time (usually a year or a quarter), regardless of who owns the productive assets – for this year will be difficult to achieve a figure of 2 percent.

Of course, it is well-known axiom that the study of economics will not assist one in determining which stock/share/property to buy in order to make a healthy profit, but the study of economics does assist in suggesting the direction of a particular economy.

In respect of The Conference Board, if there are recorded 3 consecutive months of declines in the Leading Indicators, the probability strongly exists for an economic recession.

Lastly, last Wednesday, the US Federal Reserve decided to leave interest rates unchanged at 5.25 percent.

The following is a verbatim copy of The Fed's statement:

> *'The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5-1/4 percent.*
>
> *'Recent indicators have been mixed and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to continue to expand at a moderate pace over coming quarters.*
>
> *'Recent readings on core inflation have been somewhat elevated. Although inflation pressures seem likely to moderate over time, the high level of resource utilization has the potential to sustain those pressures.*
>
> *'In these circumstances, the Committee's predominant policy concern remains the risk that inflation will fail to moderate as expected. Future policy adjustments will depend on the*

evolution of the outlook for both inflation and economic growth, as implied by incoming information.'

The above statement is interesting, especially when it uses the phrases, *'Recent indicators have been mixed'* … *'Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth …'*.

As with the findings of The Conference Board, The Fed acknowledges that *'indicators have been mixed'*.

To put it more simply: The Fed is not, completely, convinced about the health and direction of the US economy and is playing its cards close to its proverbial chest.

Also, it is clear that there will be *'Future policy adjustments'*, but these adjustments will depend on the level of inflation and the growth of the US economy (or, **TARGET** () suggests, the lack of sustained growth of the US economy).

The Fed's suggestion is clear: There is more than a little concern about the state of the US economy and action, or the absence of any definitive action, must be weighed on The Fed's scales in order to see in which direction those scales will tip.

In isolation, **TARGET** realises that any statistic, or set of statistics, may not be considered, in and of itself as being definitive, but week after week, one sees more and more strong suggestions that all is not well in The Land of The Free and The Home of The Brave.

This Report Should Be Read In Conjunction With
Last Wednesday's Lead Article, Headlined:

'*U.S. STORM CLOUDS HAVE GATHERED: THEY WILL NOT GO AWAY IN A HURRY*'

-- END --

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