

**THE U.S. ECONOMY:
DON'T BE LED, BLINDLY, DOWN THAT GARDEN PATH**

It would be difficult for most people to recall when the unemployment rate in the US was below 4.40 percent and, in fact, the unemployment rate has moved between 4.40 percent and 4.60 percent over the past 8 months.

It is likely, however, that the unemployment rate will rise above 4.60 percent before the year is out the way that things stand, today.

The Federal Reserve, The Central Bank of the United States, raises or lowers interest rates in accordance with the unemployment rate, coupled, of course, with considerations in respect of the likely prospects of inflation or deflation, etc.

On Friday, July 6, 2007, the US Department of Labour brought out its findings in respect of the employment situation in the US for the month of June.

This valuable piece of intelligence appears to have been overlooked, at least in its entirety, to a very great extent – while the key indices of equity markets of the US continued to rise, hitting one new record high after another!

One would have thought that, on digesting the statistics, produced by The Department of Labour, and marrying those statistics with other key pieces of financial intelligence, released by other branches of the US Government with regard to the US economy, investors would have been a little more conservative before making any new US equity investments than was demonstrated over the past fortnight or so.

The following is a précis of The Labour Department's announcement:

'THE EMPLOYMENT SITUATION: JUNE 2007

'Nonfarm payroll employment increased by 132,000 in June, and the unemployment rate was unchanged at 4.5 percent, The Bureau of Labor Statistics of the US Department of Labor reported today. Employment rose in several service-providing industries, while manufacturing employment continued to decline. Average hourly earnings rose by 6 cents, or 0.3 percent, over the month.

'Unemployment (Household Survey Data)

'The number of unemployed persons (6.9 million) was essentially unchanged in June, and the unemployment rate held at 4.5 percent. The jobless rate has ranged from 4.4 to 4.6 percent since September 2006. Over the month, the unemployment rates for adult men (4.1 percent), adult women (3.9 percent), teenagers (15.8 percent), whites (4.0 percent), blacks (8.5 percent), and Hispanics (5.7 percent) showed little or no change. The unemployment rate for Asians was 3.1 percent, not seasonally adjusted.

'Total Employment and the Labor Force (Household Survey Data)

'Both total employment (146.1 million) and the civilian labor force (153.1 million) were little changed in June. The employment-population ratio (63.1 percent) and the labor force participation rate (66.1 percent) also were about the same as in May ...

'Persons Not in the Labor Force (Household Survey Data)

‘In June, 1.5 million persons (not seasonally adjusted) were marginally attached to the labor force compared with 1.6 million a year earlier. These individuals wanted and were available to work and had looked for a job sometime during the prior 12 months. They were not counted as unemployed because they had not searched for work in the 4 weeks preceding the survey. Among the marginally attached, there were 401,000 discouraged workers in June, down from 481,000 a year earlier. Discouraged workers were not currently looking for work specifically because they believed no jobs were available for them. The remaining 1.1 million persons marginally attached to the labor force in June had not searched for work in the 4 weeks preceding the survey for reasons such as school attendance and family responsibilities.

‘Industry Payroll Employment (Establishment Survey Data)

‘In June, total payroll employment rose by 132,000 to 138.0 million, seasonally adjusted. This increase followed gains of 122,000 in April and 190,000 in May (as revised). In June, employment rose in health care and social assistance, food services, and wholesale trade. Manufacturing continued to lose jobs.

‘Health care employment grew by 30,000 in June, with gains in hospitals (+14,000) and in nursing and residential care facilities (+8,000). Over the year, health care employment has expanded by 371,000. Employment in social assistance was up by 13,000 over the month. This industry has added 84,000 jobs in the last 12 months.

‘Food services and drinking places added 35,000 jobs in June. Employment in this industry has risen by 387,000 over the year. In June, wholesale trade employment increased by 20,000, with gains in both its durable and nondurable components.

‘Employment in government continued to trend up in June (+40,000). Over the year, state and local governments together added 347,000 jobs, while federal employment was about unchanged.

‘Professional and business services employment was little changed in June. During the first 6 months of 2007, job growth in the industry averaged 13,000 per month compared with an average of 42,000 per month in the last half of 2006.

‘In financial activities, employment in credit intermediation and related activities fell by 9,000. This loss was partially offset by a job gain in securities, commodity contracts, and investments (+6,000). Retail trade employment edged down in June. General merchandise stores lost 10,000 jobs over the month, and smaller declines occurred among other retail industries.

‘Manufacturing employment continued to trend down in June (-18,000). Job losses occurred in several component industries including primary metals (-5,000), computer and electronic products (-4,000), wood products (-4,000), and textile mills (-2,000). Partially offsetting the declines, machinery (+6,000) and beverages and tobacco products manufacturing (+3,000) added jobs over the month.

‘Elsewhere in the goods-producing sector, employment in construction was little changed over the month. Since its most recent peak in September, construction employment has declined by 44,000.

‘Weekly Hours (Establishment Survey Data)

‘In June, the average workweek for production and nonsupervisory workers on private nonfarm payrolls increased by 0.1 hour to 33.9 hours, seasonally adjusted. Weekly hours for factory workers rose by 0.2 hour to 41.3 hours, while factory overtime hours increased by 0.1 hour to 4.3 hours.

The index of aggregate weekly hours of production and nonsupervisory workers on private nonfarm payrolls rose by 0.5 percent in June to 107.8 (2002=100). The manufacturing index increased by 0.3 percent to 95.6.

‘Hourly and Weekly Earnings (Establishment Survey Data)

‘Average hourly earnings of production and nonsupervisory workers on private nonfarm payrolls increased by 6 cents, or 0.3 percent, in June to \$17.38, seasonally adjusted. This increase followed gains of 4 cents in April and 7 cents in May. Average weekly earnings grew by 0.6 percent over the month to \$589.18. Over the year, both average hourly and weekly earnings rose by 3.9 percent’.

A factor that is not shown in the above Labour Department Release is that the number of people, entering the US workforce, monthly, is greater than the surveyed number of jobs, being created in any one month.

While **TARGET** () knows of no accurate statistics of the average number of new people, entering the US job-market pool on a monthly basis, it is, generally, accepted that that number is about 150,000 workers per month (± 10 percent).

One notes, that, of the 132,000 jobs, created in the US in the month of June, about 30 percent of that number was due to the US Government’s hiring requirements for new staff.

Therefore, the number of new jobs, created by private enterprise in the US, during the month of June, numbered only 92,000 – which, when measured against the figure of 150,000 new workers, thought to have entered the US labour pool in that month, it suggests strongly that higher unemployment is in the offering, probably before the end of the year.

The US unemployment rate of 4.50 percent – today’s rate – may well be cracked unless definitive action is taken by the powers-that-be in the US.

Ironically, the above statistics, produced by the US Labour Department, indicated that, even though the key indices of US stock markets trended up in the past month of so, jobs had been lost in the financial sector and the manufacturing sector, while the professional and business sector was little changed, Month-On-Month.

One has grown to expect US manufacturing jobs to continue to wane, appreciably, because many US manufacturers have entered a financial cul-de-sac and, by so doing, have become uncompetitive on an international level.

In order to try to right the situation and to become competitive, again, these US manufacturers have turned to Asia in order to produce goods and services because, inter alia, the cost per hour, per worker is considerably cheaper than man-hour costs in the US.

One, really, cannot blame these industrialists: The alternative is to shut up shop.

What Is Really Going On ?

The US economy appears to be teetering on an economic precipice, in **TARGET**’s opinion.

It is surprising, actually, that, during the first quarter of 2007, the country did not suffer from economic stagnation because the growth rate in the economy was only about 0.60 percent.

The US Federal Reserve is, obviously, going to take any and all measures to avoid stagflation (a state of economic depression, characterised by stagnant demand, accompanied by severe inflation) – which will make itself known unless appropriate action is taken.

The gains on the equity markets of the US mean absolutely nothing because, if anything, what is taking place in the US economy should be considered frightening.

One should not be a follower of the herd, while many of the gurus of Wall Street, sing, loudly, their songs of joy as the size of the herd increases.

The cost of the Iraq (*‘liberation’*) war is a huge drain on the US coffers while, at the same time, the US housing market sucks; and, the subprime mortgage chaos continues apace.

(**TARGET** will not reiterate how many hedge funds are being bailed out by some of the biggest banks in the US)

The problems in the housing market in the US began in 2006 and they are gathering steam to the point of exploding by the looks of things.

TARGET fully expects to see more worms crawl out of the economic woodwork of the US in the latter part of this year.

In fact, this medium would go further and suggest that, if the status quo is maintained, there is an excellent chance for the US to witness a recession before the end of the year, that recession, having been fueled by the US housing problems and the subprime mortgage chaos.

The full horrors of these situations have yet to become totally apparent, it does appear.

But these problems will become very apparent in the fullness of time, to be sure, and their aftershocks shall be felt, painfully, in the High Street.

The first definitive indications of such a situation will be a sharp drop-off in consumer spending throughout the US.

This will materialise because of the rapid erosion of disposable income at the household level.

Wholesale clubs and national, large-scale retail operations, which are able to achieve economies of scale due to their advantageous, bulk-buying power, allowing their goods to be sold to the consumer at cheaper prices than their smaller competitors, may well benefit in the short term.

Against this, however, the higher cost of crude oil will, undoubtedly, result in petrol and heating fuel prices to rise, causing consumers to be more selective in their shopping habits, preferring to buy essentials at stores, nearest to them.

One may expect private consumption to wane from hereon in until at least the middle of 2008.

No doubt, the **Gross Domestic Product (GDP)** of the US will drop back to about 2 percent before the year is out and it is likely to continue at that pace until the first half of 2008, also.

Earlier this year, **TARGET** suggested that the GDP for the US would be about 2.50 percent before the end of 2007: Things have changed since that forecast, with the subprime mortgage chaos and the continued housing stagnation, being just 2 factors, thrown into the economic soup.

Editor's Note About GDP:

GDP is generally accepted as being the total value of goods and services, produced in a country over a period of time. GDP may be calculated in 3 ways, however:

1. By adding up the value of goods and services produced;
2. By adding up the expenditure on goods and services at the time of sale;
or,
3. By adding up producers' incomes from the sale of goods and services.

Many people scoffed at **TARGET's** earlier prognostications when this medium suggested, strongly, that The Fed would cut interest rate by June.

It was suggested that this medium had misjudged the situation.

TARGET stands by its earlier statements in respect of the US economy (Please see **TARGET** Intelligence

Report, Volume IX, Number 97), but it is clear that new twists and turns in the largest, single economy have become apparent since the penning of that earlier opinion.

But one of the legs of the stool of this medium's opinion – that The Fed would cut interest rates – was the unemployment situation in The Land of The Free and The Home of The Brave.

While the 'real' increase in the number of jobs, created in the US since the beginning of 2007 has been putrid, at the same time, the proclivity for inflation continues, as far as The Fed's Governors are concerned.

Fair enough.

Then, one may assume that, if there are definite signs of deflation or stagflation – both of which are quite on the cards – then, The Fed will be forced to take action ... and slice interest rates.

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