OK, SO HOW FAR AWAY IS AN ECONOMIC RECESSION IN THE U.S. ?

One cannot expect the US Federal Reserve to come to the aid of the US economy, or any part of it, for that matter, every time that there is a bit of a hiccough in the housing sector, the retail sector, the manufacturing sector, etc, etc, etc.

At the same time, however, it would appear that something has to be done, today, to try to stem the potentially recessionary tide which is threatening the largest and most-important economy of the world.

No doubt, The Fed takes into consideration a very large number of salient factors about the US economy in reaching its conclusion to take any definitive action on any given day, but it is a guarantee that it takes careful note of the following:

1. The number of mass layoffs for the past month and the trend, thereof;
2. Existing home sales as well as new-home sales for the past month;
3. Falling or rising consumer spending;
4. The translation value of the US dollar against other *'hard'* currencies of the world and the likely impact of the US economy, therefrom; and, of course,
5. The unemployment rate, annualised.

Mass Layoffs

According to The Bureau of Labour Statistics, in the month of September, there was a total of 1,271 mass layoff actions, seasonally adjusted, *'as measured by new filings for unemployment insurance benefits during the month.'*

(A mass layoff is defined as being an action in which at least 50 people from a single employer are sacked, for any reason)

The number of employees, involved in the 1,271 mass layoffs of September, numbered 123,656.

Compared with the month of August, the September statistics were an increase of 82 actions.

The Bureau pointed out:

> *'Over the month* (of September)*, 428 mass layoff events were reported in the manufacturing sector, seasonally adjusted, resulting in 50,636 initial* (labour) *claims* (for unemployment insurance). *Compared with August, mass layoff activity in manufacturing increased by 103 events, and initial claims increased by 14,960.*
>
> *'From January through September 2007, the total number of events (seasonally adjusted), at 11,114 and initial claims (seasonally adjusted), at 1,140,148, were higher than in January-September 2006 when the totals were 10,221 and 1,071,997, respectively.'*

No matter how one may care to try to over-generalise the above statistics in order to attempt to put a positive, or neutral, slant on the situation to that which is patently obvious, these statistics are frightening because the numbers are material:

a. Mass layoff events increased by about 32 percent between August and September;

b. Initial claims for unemployment insurance benefits increased by about 42 percent between August and September; and,

c. Comparing the first 9 months of 2007 with the like period in 2006, the increase in the number of workers, involved only in mass layoff events, increased by 68,151 workers.

One must bear in mind, also, that The Bureau's statistics are based only on its records of workers, making claims for unemployment insurance benefits.

It would be unreasonable to believe that there had not been a percentage of those sacked workers who, for one reason or another, did not approach the US Government for their entitlements in respect of unemployment insurance benefits.

As for the industries that were most instrumental in instituting by mass layoffs, during the month of September, The Bureau listed them as follows:

1. Motion picture and video production;

2. Temporary help services; and,

3. Household refrigeration and home freezer manufacturing.

The manufacturing sector of the US economy accounted for 34 percent of all mass layoffs and 44 percent of related claims for unemployment insurance benefits, during the month of September.

Administrative and waste services accounted for 12 percent of mass layoffs and 9 percent of initial claims for unemployment insurance benefits, during the month of September.

The unemployment level in the US is, today, 4.70 percent, almost unchanged from one year ago.

No appreciable advance at all and, at the same time, no amelioration with regard to the unemployment level in the largest and most-important economy of the world.

Existing Home Sales And New Home Sales

Last Wednesday, The National Association of Realtors released its finding with regard to existing home sales.

During the month of September, sales of existing home fell by about 8 percent, compared with sales of existing homes, during the month of August.

The number of existing home sales, annualised, up to September 7, was about 5.04 million units, the lowest level of such sales on record.

The following statistics tell the tale for the past 3 months:

Existing Home Sales, Seasonally Adjusted, In Millions
(except where otherwise specified)

	September 7, 2007	August 7, 2007	July 7, 2007
The United States	5.04	5.48	5.75

Percentage Change (Month-On-Month)	(8.00)	(4.70)	(0.20)
Number of Months' Supply	10.50*	9.60	9.50
Median House Prices	$US210,500	$US219,700	$US220,300
Percentage Change (Year-On-Year)	(4.20)	(0.30)	0.60

* The highest level since 1999

Inter alia, what the above statistics indicate is that, since the housing boom of the past few years, all traction in this industry has been completely lost.

In short, the industry is back to square one … or, in some cases, below that level.

As for new home sales, last Thursday, the US Government's Department of The Bureau of Census released its findings for the month of September.

These findings included:

> *'September new home sales are up 4.8% from a downwardly revised August figure. September sales clocked in at 770,000 annualised units. On a year-ago basis, sales are still weak, down by 23%.'*

The following statistics tell the tale in respect of new home sales for the past 3 months:

New Home Sales, Seasonally Adjusted, Annualised Rate

	September 7, 2007	August 7, 2007	July 7, 2007
United States (in millions)	0.77	0.74	0.80
Percentage Change	4.80	(7.90)	0.10
Months Supply On Market	8.30	9.00	8.20
New Median Home Price	$US245,254	$US231,892	$US251,925
Percentage Change	5.76	(7.95)	3.99

Because the weakness in the housing sector of the economy is broadly based, one can expect that it will take some time for this industry to recover.

There would appear to be no quick fix.

Tighter lending requirements, afforded to prospective and existing home-owners, are, without question, negating much of the recorded increases in the industry.

This situation is unlikely to end soon.

As such, **TARGET()** fully expects that home sales will continue to wane in the months to follow.

The trouble, as **TARGET** sees the situation, today, is that the chaotic situation in the mortgage-lending industry and the housing industry is, almost, certain, now, to affect the entire US economy.

Which goes along with **TARGET**'s previous prognostications.

In fact, it is known that the problems in these industries, have already affected many other parts of the US economy, from purchases in the High Street, to motor-vehicle replacement sales, new sales as well as pre-owned, vehicle sales, to supermarket sales.

And many of the problems, relating, directly or indirectly, to the falling sales' numbers of homes and their prices, have been exported, too.

The banking industry will be hard-pressed not to come clean about its exposure to the housing/mortgage-lending markets.

UBS AG, in fact, just last Monday, admitted that it would have to make further provisions for potential losses in respect of the US housing market in the coming quarter of its Financial Year.

Last Wednesday, it was reported that Merrill Lynch and Company Incorporated had suffered a third-quarter loss of about $US2.30 billion, compared with a profit for the like period in 2006 of about $US3 billion.

The largest stockbroker in the US announced that it had written off about $US7.90 billion in bad debts, most of which related to the subprime, mortgage-lending industry.

Merrill Lynch has had to bite the bullet, reporting its biggest loss in its 93-year history.

From Tokyo, Japan, last Thursday, it was announced that Nomura Holdings Incorporated, one of the largest, Japanese brokerage houses, suffered its first loss in the past 4 years.

Nomura Holdings said that it suffered a Net Loss Attributable to Shareholders of about ¥10.50 billion for the quarter, ended September 30, 2007.

In the like quarter of 2006, Nomura Holdings reported a Net Profit Attributable to Shareholders of about ¥43.50 billion.

That is a swing of about ¥54 billion (about $US474 million or $HK3.70 billion)!

Management of this very large securities and merchant-banking conglomerate said that its problems stemmed from US mortgage investments that had gone terribly wrong.

Economic growth in the US must have been constrained due to, among other things, the abject weakness of the housing sector.

As this medium has stated, many times in the past, the backbone of any economy is centred on the market value, today, of its bricks and mortar.

It has, always, been so; it will, always, be so.

It is unlikely that aggressive, interest-rate reductions will do the trick to turn the tide because, among other things, the *'heart'* has been cut out of many a family in the US, especially those families, struggling to make ends meet.

Ironically, it could be held that even at current house prices, they are, still, unaffordable for many a family in the US.

Unemployment In The United States

The US Department of Labour reported, last Thursday, that initial figures indicate that unemployment in the country was little changed, Week-On-Week.

For the week, ended October 20, 2007, Initial Claims for unemployment insurance benefits were 331,000, down about 2.36 percent, compared with the week, ended October 13, 2007.

Which does not mean a great deal, of course.

The 4-week moving average is, perhaps, more indicative of the true situation since, at 325,000 Claims, it is the highest level, going back to the week, ended September 1, 2007.

Once again, the statistics tell the tale:

National Unemployment Claims,
Denominated In Thousands, Seasonally Adjusted
(unless otherwise specified)

	Oct 20, 2007	Oct 13, 2007	Oct 6, 2007	Sep 29, 2007	Sep 22, 2007	Sep 15, 2007	Sep 8, 2007
Initial Claims	331	339	309	320	300	313	320
Change, Week-On-Week	(8)	30	(11)	20	(13)	(7)	5
4-Week, Moving Average	325	317	311	313	312	321	324
Continuing Claims For Unemployment Insurance Benefits	Not Available	2,530	2,523	2,515	2,536	2,545	2,540
Change, Week-On-Week	Not Available	7	8	(21)	(9)	5	(57)

Falling Consumer Spending

Sales at chain stores across the US are falling.

For the week of October 20, 2007, the fall in the sales at chain stores was about 1.50 percent, Week-On-Week.

It was the largest decline in a single week for the previous 22 weeks, according to the statistics, compiled by The International Council of Shopping Centers.

Year-On-Year, sales' growth in chain stores, throughout the US, fell by about 2.20 percent.

Higher prices of petrol were said to have been one of the major reasons for the falloff in chain-stores' sales.

The price of petrol, today, is much higher than for the week of October 20, 2007, so that it must, still, be a constraining factor with regard to chain-stores' sales.

(Last Monday, The New York Mercantile Exchange recorded a record-breaking cost for a barrel of light sweet crude oil: $US93.53 for delivery in December.)

Slower growth in the jobs market, of course, is another constraining factor with regard to chain-store sales.

Another factor is the slower wealth effect due to financial burdens, suffered by a large segment of US consumers, and a deterioration in fixed-income payments.

Household budgets are constrained and will continue to be such for some time to come, all things being as they are, today.

__Conclusion__: All of the above leads one to the inevitable picture of gloom and doom for the largest, single economy of the world, regardless of statements to the contrary by Wall Street *'gurus'*.

If unemployment levels rise, appreciably, and an insufficient number of new jobs are created in the US in the near future, one can only expect the worst.

One thing seems obvious: An economic recession in the US has never been very far away, during the past year or so; and, an economic recession appears to be drawing nigh.

Factors which could tip the balance, casting the US economy into a recession, include:

a. Continued rising delinquencies in mortgage lending;

b. Continued material weakening in the US housing market;

c. Continued deterioration of consumer confidence;

d. Continued increases in the numbers of claims for unemployment insurance benefits, being filed;

e. Continued weakening of the US dollar vis-à-vis other *'hard'* currencies of the world. In fact, the US dollar's buying power, internationally, has fallen to its lowest level since 1997 although, from the point of view of US exports, a weak dollar is good news. But who would like to invest in stocks and bonds in a country, the prospects for its currency are that, against other important currencies of the world, erosion on a translation basis is a given?

It is accepted by many well-heeled economists that the risk of the US economy, slipping into recession, is about 33 percent.

That may well turn out to be a conservative figure.

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