

LET'S TALK SOME SENSE, SHALL WE ?

Things have changed of late and the spectre of a recession in the US is fading.

Perhaps that spectre is not fading very quickly, but it is fading, nevertheless.

This is **TARGET**'s assessment of the current economic situation in The Land of The Free and The Home of The Brave.

And, yes, this is an about-turn for this medium.

And, yes, the US economy is looking a little peaky of late.

The reason for **TARGET**'s change of heart are the actions of the US Federal Reserve in cutting interest rates by about 1.25 percent in the past month and the actions of the US Government in releasing about \$US160 billion back into the world's largest and most-important economy, today.

The gyrations of the key indices of US equity markets matter not a hoot to the Government of President George W. Bush because the emphasis is to keep the US economy from slipping further, not trying to increase the wealth effect of investors via the good offices of The New York Stock Exchange, The NASDAQ, etc, etc, etc.

As for The Fed, as the Central Bank of The United States of America, its mandate never included any concern about the strength or weakness of the Dow Jones Industrial Average or The Composite Index of The NASDAQ.

The US dollar, for certain, is under pressure and it may well continue to be under the gun, so to speak, for a while longer, but this, too, will pass because lower interest rates in the US, among other things, will help to stimulate exports which, to many other countries, will be relatively cheaper, relative, that is, to the cost of US imports when the US dollar was considerably stronger than it is today vis-à-vis other 'hard' currencies.

True, the US housing market has yet to bottom out and the likelihood is that things will not improve tomorrow.

On Monday, in Washington, D.C., it was announced that January's sales of existing homes had fallen for the sixth, consecutive month and, at the same time, home prices had fallen back by another 4.60 percent.

The National Association of (US) Realtors said, inter alia, that January's sales had fallen by about 0.40 percent, Year-On-Year, to at an annual rate of about 4.89 million units.

Never since the Great Depression (1929 – 1933) had such a situation existed in the US housing market.

Nevertheless, **TARGET** () is covering all bets that, by this time next year, new shoots will appear from beneath the soil of today's housing market in the US: The economic spring will follow.

It is quite natural for a man to claim that noises in the dark of night are spooky because, in the dark, things become distorted and distances are difficult to ascertain with any accuracy, using only the naked eye.

And the mind is fertile soil for any number of images, real and imagined.

Equity markets are driven by greed and fear: It is an adage that has been proved, over and over.

Today, the world's equity markets are being driven more by fear than greed.

Fundamentals are being disregarded by many people – including many Wall Street gurus – and, in their place, one hears, repeatedly, questions, such as: *'Do you think that the US is already in recession, today?'*

In order for a recession to exist, it is generally accepted that there has to be the existence of at least 2, consecutive quarters of negative growth.

(Some economists, in fact, claim that there has to be 3 consecutive quarters of negative growth for there to be a recession)

There has yet to be one quarter of negative growth in the US, as a matter of fact.

Or did somebody forget this little matter?

It appears to **TARGET** that the actions of The Fed in reducing interest rates, aggressively, and the US Government's economic stimulus package will have a very telling effect on the economy before the year is out.

And, if these measures do not bear fruit, quick enough, further action will be taken in order to stabilise the economy.

In fact, this has, already, been promised by the Speaker of the United States House of Representatives, Ms Nancy Pelosi.

In the pecking order of the US Government, Ms Nancy Pelosi stands in the Number Two slot.

On February 8, 2008, Ms Nancy Pelosi said, inter alia:

'It was only about 2 1/2 weeks ago that leadership was on the telephone with the President of the United States. He had just returned from his trip to the Middle East. And we talked about what every homemaker in America has known for a long time, that our economy is going into a downturn. We wanted to prevent it from being more of a downturn, and a stimulus was needed.'

'We had heard from Federal Reserve Chairman Bernanke about the state of the economy and that a stimulus was needed and that it should have certain features of being timely, targeted, and temporary. And the President, on that phone call, agreed that we should go forward with a stimulus package in record time. The House put it together and sent it over to the Senate. And I'm very, very proud of that.'

'If I boast of it, it's because it's highly unusual that we can respond in such record time. But we did so because it was urgent for the American people. So often they listen in on the debate on the floor of the House which seems irrelevant to their lives. This is very relevant to their lives because there are many firsts in here.'

'For the first time, those who don't make over a certain income are able to participate in the recovery rebates and the child tax credit. In fact, more than 40 million families will be receiving those rebates and tax credits who had never received a rebate or a tax refundable child tax credit before. That's just astounding.'

'It was different from the bill the President originally proposed because his proposal did not have a cap, so some of the wealthiest people in America could get this rebate. Instead, we said, God bless them for their success, but we need to put this money in the pockets of those who are living paycheck to paycheck, who are finding it hard or struggling to make ends meet with the price of gasoline, the price of groceries, the price of health care, the price of education, anything that you can name. Costs were going up and the purchasing power of their income was not.'

'And so we believe that the stimulus, the way it is targeted, will put money in the hands of those who will spend it immediately, injecting demand into the economy and therefore creating jobs. That's the impact that we want the stimulus to have. Same thing with the small business incentives ...'

'The tax credits and the incentives for small businesses have been a part of the bipartisan support we have in the House for an Innovation Agenda so that small and medium-size businesses can take advantage, in a short period of time, of this incentive that they have to invest and to purchase equipment and for job creation. Good-paying jobs here in America ...

'Certain features are contained in this bill so that there is some relief for the subprime crisis ...

'A typical middle-income family, a family of four with two children, will get \$1,800. Eighteen hundred dollars. I think that that is impressive. And families making less than that, other families, depending on the number of their children, will get a sizable check in the mail ...

'And that's why once more I will reiterate that 40 million American families will participate in the recovery rebates to the tune of about \$28 billion infused into our economy through their hands.'

The grammar of this lady may be sadly lacking, but the sentiment and determination of this intelligent woman is unquestionable.

Of course, the turnabout in the fortunes of the US economy will not be forthcoming yesterday, but, undoubtedly, come the morrow, one will see the fruits of the US Government's stimulus package.

Having said that, one hears that banks remain very reluctant to lend money.

Against this, one notes, almost daily, that this company or that company is making a multi-billion-dollar bid for another company.

Microsoft Corporation pitched a \$US44.60-billion bid to acquire control of Yahoo! Incorporated on February 8, 2008.

Microsoft Corporation is known to be awash with money and does not rely on banking support to make a pitch for control of Yahoo! Incorporated.

There are thousands of companies out there, all of which have treasure chests, their lids, having not even been opened for many months.

Investments and capital spending, in the US and in many parts of the world, are not solely dependant on banks to finance expansion or to upgrade existing facilities.

The international credit squeeze, to many of the ignorant and uninitiated in the ways of the machinations of business, is not the end of the world, not be a long shot, because retained earnings in many a company remain intact.

Managements of these companies, no doubt, are awaiting the opportunity to make a move in the same manner that Microsoft Corporation has recently made its move.

This medium is not suggesting that there will not be a reduction in the rate of investment in the US and in Europe in the first half of this year because it is likely that business will allow the dust to settle, first, in order to reappraise the total situation, more clearly.

By June, however, one may well see a change in the economic climate of the US.

The decline in consumer demand, which is likely to be very noticeable in the first half of this year, is quite likely to be reversed by the second half, all things being equal.

This will come about because of the monetary actions of The Fed and the US Government's stimulus package.

In the housing market of the US, one cannot see any light at the end of this long tunnel because there is such a large inventory level which will have to be whittled down before demand will come to the fore, again.

There is an old adage which sums up the current situation, very nicely:

*Patience is a virtue,
Acquire it if you can:
It is seldom in a woman;
But never in a man!*

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