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EUROZONE AND THE UNITED STATES SHARE SIMILAR PROBLEMS:
<u>THEY ARE BOTH IN CRISIS</u>

The economy of the US has been struggling to gain traction, but financial headwinds continue to hinder any real progress.

As reported by this medium on Friday, July 29, 2011 (Please refer to **TARGET** Intelligence Report, Volume XIII, Number 142), the US economy grew by about 1.30 percent in the second quarter of this Fiscal Year; and, the country's growth in the first quarter was shaved down by about 79 percentile points to about 0.04 percent.

As for the fourth quarter of the 2010 Fiscal Year, the US Commerce Department announced that the growth of the US economy was about 2.30 percent, a fall of about 26 percentile points from earlier pronouncements.

In short, the US economy has been in retreat for at least the first 7 months of this year.

Higher prices for imported fossil fuels, and especially petrol, are not helping matters in The Land of The Free and The Home of The Brave.

With the settlement price of an imported barrel of light sweet crude oil, stubbornly hovering at about $US100, it is putting a continual strain on the economy.

An underlying factor, all too often overlooked, is that continued uncertainty in the US is cutting the legs from underneath the economy.

Issues, relating to sovereign debt, both of the nations of the European Union and of the US, have taken centre stage of late … but all too late, it would seem for the many myopic economists of the largest single economy of the world.

Meanwhile, in the US, the nagging problem of anaemic house prices continues to be another deep-rooted thorn that just cannot seem to be extricated.

On July 26, 2011, the US Commerce Department announced that sales of new homes in the month of June in the US fell for the second, consecutive month. On a seasonally adjusted basis, the annual rate of new home sales came in at about 312,000 units. June's sales were off by about one percent, Month-On-Month.

On June 20, 2011, about one month earlier, The National Association of Realtors announced that sales of previously owned homes in the US fell to a 7-month low, with contract cancellations, escalating rapidly, compared with May's statistics: Up about 16 percent in June, compared with about 4 percent for the month of May.

Whenever the market value of property is continually eroded over a period of time, it is endemic of an economy in severe trouble because the backbone of any economy lies in the value of real property.

On The Labour Side of the Equation:

The lack of suitable growth in employment in the US continues to be another major problem and there appears, at this time, to be no real answer to this problem, too.

On Friday, July 17, 2009, The Bureau of Labour Statistics, a division of The Labour Department, said, inter alia:

> *'Regional and state unemployment rates were generally higher in June. Thirty-eight states and the District of Columbia recorded over-the-month unemployment rate increases, 5 states registered rate decreases, and 7 states had no rate change … Over the year, jobless rates were higher in all 50 states and the District of Columbia. The national unemployment rate, at 9.5 percent, was little changed between May and June, but was up 3.9 percentage points from a year earlier…*
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> *'Over the year, 45 states experienced statistically significant changes in employment; 44 had decreases and 1 reported an increase. The largest statistically significant job losses occurred in California (-766,300), Florida (-392,800), Michigan (-337,600), Ohio (-279,000), Illinois (-272,600), and Texas (-266,300). The only statistically significant over-the-year employment increase occurred in North Dakota (+6,000). Three states recorded statistically significant decreases in employment that were less than 15,000: New Hampshire (-13,300), Vermont (-12,300), and Wyoming (-8,000).'*

The Labour Department announced in June, this year, that the unemployment rate stood at about 9.20 percent.

This was the highest level since 2011, this division of the US Government explained.

The labour situation in the US, therefore, has not improved very much since July of 2009.

The Bureau of Labour Statistics is scheduled to make a further announcement in respect of the labour situation in the US, tomorrow, Hongkong time, and, on scanning this announcement, one will be able to learn more about this important economic indicator.

Generally, the US labour force is in fear of another economic downturn and this could well lead to further increases in the unemployment levels in the country; there is widespread concern and this, in turn, lends itself to further frugality on the part of many households.

One does not need much grey matter to come to this conclusion.

By and large, Mr and Mrs America are unable to see further than the nearest seashore in the country, a place to take the kiddies on Sundays and holidays, but, across that pond, known as the Atlantic Ocean, there are deep-seated financial problems, problems that could, and probably will, be exported to those same American shores where children frolic in the sunshine.

Because the situation in Europe, today, is, probably, among the worst since the euro was introduced as the single common currency of the 17 nations of the 27 member states of the eurozone.

The euro was introduced, officially, in December of 1995 and it was introduced to the world's financial markets on January 1, 1999, replacing the former **E**uropean **C**urrency **U**nit, the **ECU**, as it was, then, known.

The coins and banknotes of the euro entered circulation on January 1, 2002.

Today, the euro is the second-largest, reserve currency in the world and the world's second, most-traded currency, a close second to the US dollar.

It is estimated that more than €800 billion are in circulation, having surpassed the US dollar.

The attempts to resolve the many problems of the eurozone, however, are failing.

This was only too evident in the case of Greece when the combined financial forces of the European Union and the International Monetary Fund had to front up with €109 billion in addition to the already €110-billion rescue package, afforded to Greece.

German Chancellor Angela Merkel has persuaded private banks, bondholders and etc to shoulder some of the financial burden in rescuing Greece and it has been agreed that these holders of Greek debts would put another €50 billion into the pot to save the birthplace of democracy.

In all, the present rescue package for Greece stands at about €158 billion.

In the words of German Chancellor Angela Merkel, stated dramatically on Friday, July 25, 2011:

> *'It is our historical duty to support the euro. The euro is good for us; the euro is part of Germany's economic success; and, a Europe without the euro is unthinkable.'*

What the Chancellor of Germany was, also, intimating, reading between the lines of the above statement, was that the eurozone does not permit defaulters of any of its member states.

One eurozone member state in default of its international financial obligations, one may speculate, could well send a message, round the world to the effect: Beware of doing business in eurozone!

In order to roll over short-term debts, the members of eurozone have to attract international investors on a very regular basis.

International investors, however, in order to take the risk of investing in eurozone, especially in member states that are known to be on a knife edge of defaulting on international financial obligations, are demanding higher interest rates.

Banks are baulking at the idea of higher interest-rate coupons, attached to investment scrip.

If one member state of the European Union were to be in default of its financial obligations, it would start a veritable avalanche of investors, fleeing the danger zone.

Such an eventuality could well have a knock-on effect with the solvency of financial institutions of Europe, being questioned – and rightly so, too.

Thus, German Chancellor Angela Merkel to the rescue.

Conclusion: The situation in eurozone is far from being righted, regardless of suggestions to the contrary.

With all of the brilliance of the finance ministers of those 17 European nations, still a comprehensive approach to thwart grave financial problems, such as those of Greece and Ireland, have yet to be agreed.

One must not forget, of course, Portugal, Spain and Italy, their respective economies, being very questionable, too.

Last Tuesday, The Centre for Economics and Business Research, a British think-tank, prognosticated that Italy is likely to default on its international financial obligations.

Italy is the third-largest economy of eurozone and it is considered much too big to be saved by the joint forces of the European Union and the International Monetary Fund: There is just not enough money in the kitty.

To create more euros by speeding up the printing presses is unthinkable … but so is the idea of allowing Italy to become insolvent.

If a viable solution to the problems of eurozone cannot be found in time, the possibility of there being, eventually, a defaulting nation is high – and the sounds of that defaulting member state would be heard, round the world.

Last Tuesday, share prices on the Spanish and Italian bourses lost considerable ground as fears, once more, were raised as to the growing debt burdens of eurozone.

A number of European banks will suffer, and have been suffering, due to the financial problems of Greece and Ireland; Barclays plc continues to wrestle with its exposure to monies, owed to it by Spain and Portugal. This British-based bank made a Provision of £1.80 billion in respect of its exposure to Spain and Portugal with regard to the first half of its Current Financial Year, ended June 30, 2011.

Its Pre-Tax Profits fell about 33 percent to £2.60 billion for the first 6 months of the 2011-Year.

Last Wednesday, there was another victim of the Greek tragedy.

Société Générale S.A., the second-biggest bank of France, announced that its second-quarter Net Profit Attributable to Shareholders fell to €747 million, down about 31 percent, Year-On-Year.

The bank said, also, that it had made a €395-million write-down on its Greek debt holdings. It holds about €2.65 billion of Greek Sovereign Bonds.

Turning to the US economy, the Commerce Department recently announced that consumer spending in June fell by about 0.20 percent, Month-On-Month, for the first time in 2 years.

Last Tuesday, Washington time, The Commerce Department said, inter alia*:

> *'Personal income increased $18.7 billion, or 0.1 percent, and disposable personal income (DPI) increased $16.3 billion, or 0.1 percent, in June. Personal consumption expenditures (PCE) decreased $21.9 billion, or 0.2 percent. In May, personal income increased $23.2 billion, or 0.2 percent, DPI increased $17.6 billion, or 0.2 percent, and PCE increased $5.9 billion, or 0.1 percent, based on revised estimates.'*
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> * All figures are denominated in US dollars

The June employment report, compiled by The US Labour Department, indicated a gain of about 18,000 jobs in June. But the labour statistic for May was revised down from 54,000 jobs to 25,000 jobs.

Meanwhile, private-sector payrolls rose 57,000 jobs in June, down from 73,000 jobs in May. The unemployment level was about 9.20 percent – even though the labour force contracted.

No money; no work; no High Street buying.

It is as simple as that.

Not a pretty picture.

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