THE ECONOMY OF THE UNITED STATES OF AMERICA
 IS, TRULY, ON A ROLL

But Portentous Clouds Are On The Horizon

The most recent economic statistics appear to confirm, without a doubt, that the largest economy of the world, today, is well and truly on a roll.

There can be no question about this if one accepts the finding of the latest statistics, compiled by various US Government departments.

It was only last Wednesday (January 28, 2015) that the Board of Governors of The Federal Reserve Board – the de facto Central Bank of the US – made the following announcement, following the convening of its Open Market Committee Meeting (FOMC):

> *'Information received since the Federal Open Market Committee met in December suggests that economic activity has been expanding at a solid pace. Labor market conditions have improved further, with strong job gains and a lower unemployment rate. On balance, a range of labor market indicators suggests that underutilization of labor resources continues to diminish. Household spending is rising moderately; recent declines in energy prices have boosted household purchasing power. Business fixed investment is advancing, while the recovery in the housing sector remains slow. Inflation has declined further below the Committee's longer-run objective, largely reflecting declines in energy prices. Market-based measures of inflation compensation have declined substantially in recent months; survey-based measures of longer-term inflation expectations have remained stable.*
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> *'Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace, with labor market indicators continuing to move toward levels the Committee judges consistent with its dual mandate. The Committee continues to see the risks to the outlook for economic activity and the labor market as nearly balanced. Inflation is anticipated to decline further in the near term, but the Committee expects inflation to rise gradually toward 2 percent over the medium term as the labor market improves further and the transitory effects of lower energy prices and other factors dissipate. The Committee continues to monitor inflation developments closely…'.*

On the same day that The Federal Reserve made its announcement, from The Bureau of Labour Statistics, a division of The US Labour Department, released its second quarter findings with regard to Business Employment Dynamics.

The following is copied from this Release:

> *'From March 2014 to June 2014, gross job gains from opening and expanding private sector establishments were 7.4 million, an increase of 582,000 jobs from the previous quarter… Over this period, gross job losses from closing and contracting private sector establishments were 6.5 million, an increase of 63,000 jobs from the previous quarter.*

'The difference between the number of gross job gains and the number of gross job losses yielded a net employment gain of 916,000 jobs in the private sector during the second quarter of 2014.'

On Friday, January 9, The Bureau of Labour Statistics released its findings with regard to the US employment situat

This Release stated in the first four paragraphs:

'Total nonfarm payroll employment rose by 252,000 in December, and the unemployment rate declined to 5.6 percent … Job gains occurred in professional and business services, construction, food services and drinking places, health care, and manufacturing.

'***Household Survey Data***

'The unemployment rate declined by 0.2 percentage point to 5.6 percent in December, and the number of unemployed persons declined by 383,000 to 8.7 million. Over the year, the unemployment rate and the number of unemployed persons were down by 1.1 percentage points and 1.7 million, respectively.

'Among the major worker groups, the unemployment rate for adult women (5.0 percent) decreased by 0.2 percentage point in December, while the rates for adult men (5.3 percent), teenagers (16.8 percent), whites (4.8 percent), blacks (10.4 percent), and Hispanics (6.5 percent) showed little change. The jobless rate for Asians, at 4.2 percent (not seasonally adjusted), changed little from a year earlier.

'In December, the number of long-term unemployed (those jobless for 27 weeks or longer) was essentially unchanged at 2.8 million and accounted for 31.9 percent of the unemployed. Over the year, the number of long-term unemployed has declined by 1.1 million.'

At Table B of this Release, it is indicated that the total unemployment rate in the US had fallen, during the 13 months, ended December 31, 2014, by 16.42 percentile points.

Then, last Thursday, The US Department of Labour announced more bullish news about the US economy: Claims for Unemployment Insurance Benefits in the respect of the week, ended January 24, 2015, indicated a continuation further declines.

In fact, for the week, ended January 24, claims were at their lowest level since April 15, 2000, The Labour Department pointed out.

For adult males, the Unemployment Rate was 5.30 percent and, for adult females, the Unemployment Rate was down to 5.00 percent.

The following is copied from the official announcement of this important department of the US Government:

'In the week ending January 24, the advance figure for seasonally adjusted initial claims was 265,000, a decrease of 43,000 from the previous week's revised level. This is the lowest level for initial claims since April 15, 2000 when it was 259,000. The previous week's level was revised up by 1,000 from 307,000 to 308,000. The 4-week moving average was 298,500, a decrease of 8,250 from the previous week's revised average. The previous week's average was revised up by 250 from 306,500 to 306,750…

'The advance seasonally adjusted insured unemployment rate was 1.8 percent for the week ending January 17, unchanged from the previous week's unrevised rate. The advance number for seasonally adjusted insured unemployment during the week ending January 17 was 2,385,000, a decrease of 71,000 from the previous week's revised level. The previous week's level was revised up 13,000 from 2,443,000 to 2,456,000. The 4-week moving average was

> *2,438,500, an increase of 8,250 from the previous week's revised average. The previous week's average was revised up by 3,250 from 2,427,000 to 2,430,250…'.*

Then, just last Friday (January 30), The Bureau of Economic Analysis, a branch of the US Department of Commerce, announced the following 'Advance Estimate' in respect of the **G**ross **D**omestic **P**roduct (**GDP**) for the fourth quarter of 2014.

The following paragraphs are lifted from this Advance Estimate:

> *'Real gross domestic product -- the value of the production of goods and services in the United States, adjusted for price changes …*
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> *'The Bureau emphasized that the fourth-quarter advance estimate released today is based on source data that are incomplete or subject to further revision by the source agency … The "second" estimate for the fourth quarter, based on more complete data, will be released on February 27, 2015.*
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> *'The increase in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (PCE), private inventory investment, exports, nonresidential fixed investment, state and local government spending, and residential fixed investment that were partly offset by a negative contribution from federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.*
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> *'The deceleration in real GDP growth in the fourth quarter primarily reflected an upturn in imports, a downturn in federal government spending, and decelerations in nonresidential fixed investment and in exports that were partly offset by an upturn in private inventory investment and an acceleration in PCE.'*

The Prospective Problems

While the US economy is, obviously, motoring along at a very acceptable pace, in Eastern and Western Europe, there is a great deal of gloom and doom.

One has to ponder how Europe's many economic problems will, eventually, have a negative effect on the US economy, that is, if that is not the case, today.

In the Ukraine, there are the makings of a deadly civil war.

It is being waged between pro-Russian separatists of the country and the militia of the Ukrainian Government.

The Russian Federation is known to be supporting the pro-Russian separatists who appear to be determined to carve out a piece of the country for themselves.

Russia is supplying the separatists with guns and ammunition in addition to well-trained, members of branches of the Russian Army.

The United Nations has imposed economic sanctions on Russia, resulting in the Russian ruble's translation value, vis-à-vis the US dollar, falling by more than half and the sanctions have helped to send the economy into a deep recession.

With the price of a barrel of crude oil, being traded at less than half of its market value of less than one year ago, it is having a very positive affect on households' budgets, around the world, but for companies in the business of pumping crude oil from beneath the earth's surface and, then, refining it into various petrochemicals, including petrol and diesel fuel, they are having a very difficult time, making ends meet.

Some are not making the grade, at all.

Russia had, in the past, depended on revenues from the sales of its crude oil and natural gas, but, at today's prices, of about $US45 per barrel of crude oil, down from $US115 per barrel in June 2014, the country can no longer depend on this source for very much in the way of dollars and cents.

Russia's President Vladimir Putin is facing a very difficult task and his popularity will wane unless he can pull the economic fat out of the country's fire.

British Petroleum's Problems

British **P**etroleum (**BP**), a giant in the oil business, internationally, has, already, announced that it will be sacking tens of thousands of its 84,000 workforce, worldwide.

This year will see between $US1 billion and $US2 billion cut from the company's budget, according to statements from Mr H. Lamar McKay, Chief Executive Officer of Upstream Business of BP and a member of the Executive Management, as it is known.

BP's operations in the US account for about 33 percent of the entire company's business interests, and, in this part of the world, BP supports the livelihood of not less than 20,000 employees.

As BP cuts back on expenses, many of those 20,000 US employees will have to look elsewhere for their monthly cheques.

It stands to reason that that which is taking place at BP must be taking place to some degree at other companies, involved in the oil industry.

With no indications in sight for the price of crude oil to recover a goodly part of its former high price of $US115 per barrel, there will, without question, be a knock-on effect to a great number of companies that rely on the financial strength of oil companies for their daily bread.

US Exports Will Be Affected

The continued strength of the US economy will, ironically, have a negative effect on many of its exports.

The US dollar, vis-à-vis the euro and most other *'hard'* currencies, has experienced, of late, a translation value that makes US exports considerably more expensive than similar products, manufactured in other countries, not just in Asia, but, also, in Eastern and Western Europe.

In Australia, quite a number of US-owned, Japanese-owned and South Korean-owned factories that have been manufacturing a range of goods from motor vehicles to tooth brushes to what-have-you, have announced, openly, that they will be closing down, later this year and next year, because production costs in this antipodean country are too expensive, compared with other countries.

GM Holden Ltd, owned by General Motors Company of Detroit, Michigan, and the manufacturer of Holden vehicles, has announced that its plant will be shut within the next 24 months or so.

The closure of this manufacturing plant will result in some 50,000 people, looking for alternate employment.

And, it is strongly suggested that the closure will cost the country $A20 billion.

Toyota Motor Corporation of Japan, announced about one year ago, that it would close down all of its motor-vehicle production facilities in Australia.

The closures will result in the loss of jobs of some 2,500 Toyota workers.

The Ford Motor Company of Dearborn, Michigan, also announced that it would close its Australian 'shop', next year.

Little by little, Australia is losing its position in the antipodes as a manufacturing destination for multinational companies to produce goods for the local market and for export to other countries.

The rot started in 1992 with the closure of the Nissan plant and it continues to this day.

Taking into consideration all of the other problems, facing Australia, the very strong suggestion is that the translation value of the Australian dollar, vis-à-vis the US dollar/the euro, will lose another 20 percent of its value in the course of this year and next year.

At its present level, about 78 cents (US) is equal to $A1.00. One may expect to see the US currency strengthen to a level whereby 62 cents (US) will be able to purchase $A1.00.

This may, short term, be positive for the inbound tourist, but it will strike hard at Australia's manufacturing heart because, among other things, the Australian dollar will suffer a material reduction in its buying power, internationally.

This is in direct converse to the situation in the US, ironically.

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