MAJOR ECONOMIES LOOKING HEALTHY

U.S. and Japanese Economies on Sustained Growth Path

Is the U.S. economy slowing enough to quell worries about inflation and a hike in interest rates? The Fed's recent actions and employment data released in early October show that this is partly true. On September 24, the Fed decided to keep the Federal funds rate stable, based on a bet that inflation would remain subdued and a prayer that a slowdown in the economy would appear reasonably soon. September's employment data supports the Fed's decision. Nonfarm payrolls shrank by 40,000 in September, the first such decline since the weather-induced drop in January. One month does not a trend make, but the jobs report can be a signal of a period of more moderate growth. Instead of the new jobs gains of close to 240,000 per month as the job market had been experiencing through the late winter and into the summer, employment gains in the 150,000 to 175,000 range per month are expected in the future. This would be consistent with GDP growth in the 2% range, a moderate and sustainable level.

However, the state of the U.S. economy should not be assessed solely by a suspicious decline in the headline employment number. Other than the number of jobs, the indicators of labor market activity were fairly good. Average hours worked was up 0.2 hours and the average hourly wage jumped another 6 cents. In addition, the index of aggregate hours worked surged 0.7%, a clear sign that the labor market is not weakening. The implication of all these is that wage and salary income in September will grow again so that consumption will expand at a solid pace. As a result, we can conclude that worries about inflation are not disappearing yet and the debate about raising the Federal funds rate will continue until the November FOMC meeting.

Japanese economic activity is maintaining its sustained growth path. The 0.7% dip in the second quarter GDP is a long way from wiping out the effects of the boom at the start of this year. In other words, the recent economic downturn is not a continuation of the recession but merely a slowdown in the recovery. The drop in private consumption is no more than the reflection of a normalization of household savings behaviour. The contraction in public spending comes as no surprise, since public spending in entering into the planning process. More importantly, corporate investment remains bullish, a sign that the outlook for sales is not bad. Furthermore, industrial orders and output bounced back in July. The Bank of Japan has delayed raising interest rates, waiting for the time when economic growth is led by the private sector. Currently, the Japanese economy is going the way the Bank of Japan wants.

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Continuous Recovery Seen in the German Economy

The rebound in German economic activity in the second quarter was much stronger than expected. Growing 1.5% over the previous quarter, real GDP grew at the highest rate in five years, fuelled by the manufacturing sector in particular. Business optimism is improving as well. In addition, exports will be another main force for economic growth in the near future. One negative fact is that the insufficient increase in job creation, low wage increases, higher welfare contributions, and a drop in social transfers will combine to limit the increase in household consumption. VIP *(Jae-Chil Kim)*