



Partner Update - *Economy*

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The growth of the U.S. economy had noticeably slowed in the last quarter of 2007 primarily as a result of declines in the housing market leading to a run on the banking system. Add to this a sharp rise in oil and gasoline prices, an increase in the unemployment rate to 5% in December 2007, and some significant volatility in the stock market resulting in the Federal Government and the Federal Reserve taking steps to ward off a recession.

Current State of the US Economy

In the past few weeks, the Federal Reserve has lowered the interest rate by $\frac{3}{4}$ of a point and then followed with an additional $\frac{1}{2}$ point. This will have an immediate affect on the supply of money that is intended to help stabilize the financial market and the housing market. The Federal Reserve is able to take these aggressive steps because inflation is more or less under control. And the Federal Government (President and Congress) is discussing a "fat rebate" initiative which will put more money into the hands of the consumer, intended to spur consumer spending.

Long term the U.S. has a dynamic and flexible labor market and a financial system that rewards innovation and hard work allowing firms to adapt quickly to changes in demands for goods and services.

However, the key to the U.S. economy and the travel industry may very well be the impact of the Baby Boomers who are now nearing the retirement age. Will they retire and spend their hard earned money traveling the world? Will they continue to work and both "take" and "give" to the Social Security fund? Will they have to help their children who may be facing financial problems including home loans and college costs for their children? These are a few of the questions that are currently being raised by US businesses.

The Presidential candidates are promising change, but with only nine months before the election, this will inevitably be a time of uncertainty reinforced by the evening news and its pessimistic orientation. Continued reminders of our situation in the Middle East and other disasters around the world will keep consumer sentiment low.

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Consumer Confidence Drops in January

Consumer confidence fell sharply again in January with worries over deteriorating business conditions and a weakening job market.

A New York based conference board, Thomson / IFR noted that its Consumer Confidence Index dropped to 87.9 in January from a revised 90.6 in December. The January reading was slightly below the 88 points expected by Wall Street analysts.

The consumer confidence index measures how consumers feel now about the economy. It has been weakening since July, suggesting that wary consumers could tighten their spending in order to



*Consumer Confidence Index
from May 2007 - January 2008*

increase savings. Any cut back on consumer spending could weaken the economy further.

January's data was collected before the Federal Reserve met on Jan. 22 and cut its short-term interest rate target three-quarters of a percentage point to 3.5 percent to boost the economy. Only two days later, the White House and Congress announced an agreement to work on an economic stimulus program.

Lynn Franco, director of The Conference Board Consumer Research Center, said in a statement that the consumer confidence survey — which is based on a sample of 5,000 U.S. households — indicated that consumers in January appeared more pessimistic about the economy.

"Consumers' appraisal of current business conditions is becoming more negative and their assessment of the job market, while slightly less negative than in December, is more negative than a year ago," Franco said.

She added, "Looking ahead, consumers are quite downbeat about the short-term future, and a greater proportion expect business conditions and employment to deteriorate further in the months ahead."

Source: Associated Press / January 31, 2008

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Fed cuts a half point

New evidence indicating that U.S. economic growth virtually stalled late last year was recently announced, as the Federal Reserve has cut another half-point to a key lending rate in a bid to keep the economy out of recession.

The Fed reduced its benchmark federal funds rate - the overnight rate that banks charge each other - to 3 percent. In just eight days, the central bank chopped its benchmark rate by 1.25 percentage points, emphasizing its concerns that the U.S. economy is going into a near stall.

This view was underscored by Commerce Department data released hours before the rate cut, which showed that the U.S. economy grew by a subpar 2.2 percent in 2007 and a tepid 0.6 percent in the last quarter of the year.

That number was roughly half the growth rate that most mainstream economists had anticipated. It confirmed that the U.S. economy had little tail wind going into what's been a volatile start to 2008.

"Financial markets remain under considerable stress, and credit has tightened further for some businesses and households," the Fed said. "Moreover, recent information indicates a deepening of the housing contraction as well as some softening in labor markets." The statement left open the possibility of more rate reductions in the months ahead.

"Today's policy action, combined with those taken earlier, should help to promote moderate growth over time and to mitigate the risks to economic activity. However, downside risks to growth remain," it said.

Commerce Department economic-growth data released yesterday illustrated how much housing is hurting the broader economy. Investment in residential housing fell by the largest quarterly amount since 1981, and that's dampening the Fed's efforts to stimulate the

economy.

"The principal link between monetary policy and the economy is the housing market, and this link is being short-circuited by the housing recession," said Mark Zandi, the chief economist for Moody's Economy.com, a forecaster in West Chester, Pa.

President Bush and Congress are putting together an economic stimulus plan, hoping that the combination of tax rebates for consumers and tax breaks for businesses will spur consumer spending, which drives two-thirds of U.S. economic activity.

Yesterday's economic data confirm that consumer spending is slowing and that consumers have less money left over after meeting their basic needs.

The troubled housing sector negated almost all gains from consumer spending. Investment in residential housing fell 24 percent in the fourth quarter, shaving an estimated 1.18 percentage points off the economic growth rate.

In previous quarters, growing U.S. exports had offset the negatives from housing. But in the fourth quarter, exports contributed less than half a percentage point to the economic growth rate.

Source: The Baltimore Sun / January 31, 2008

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