



Partner Update - *Economy*

April, 2008

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The growth of the US economy has slowed over the past few months. This decline is clearly noticeable throughout most sectors as reported in the recent job data. The worsening of the housing slump and the exorbitant rise in oil and gasoline prices have contributed greatly to this trend.

Fear of a real crisis and possible recession was felt after the report of the 5.1% unemployment rate. In an effort to stabilize the financial and housing markets, both impacting the US dollar, the Federal Reserve is taking actions by once again lowering interest rates.

Regardless of the current economic situation in the US, Tahiti Tourisme North America has continued to increase our promotional efforts as well as our visibility in the marketplace.

Economy Sheds Jobs in March, Fueling Fears of Recession

A sharp drop in US Payrolls further spreads worries and pessimism about the current economic outlook.

According to the Department of Labor, non-farm payrolls fell 80,000 in March, representing its biggest decline in five years, after falling by 76,000 in both January and February. Consequently, the nation's employment rate rose by 0.3 percentage point to reach 5.1%, the highest since September 2005. These worrisome figures amplify the fear that the US economy may already be in a recession.



The decline in payrolls is greater than the 50,000 that the Wall Street economists had expected. There was also a surprising rise in jobless claims to over 400,000, which is at an unemployment level usually associated with recession.

As a result, the Federal Reserve will likely take the initiative to lower the federal funds interest rate again at its next meeting, expected on April 29-30 2008, in an effort to contain the effects of a credit and housing crisis.

Source: Wall Street Journal

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Recession Worries Weaken Dollar

The US dollar reached its lowest point after the economy lost more jobs than expected, broadening worries about the depth of the US economy turmoil.

The dollar index was at 72.068 which is slightly higher than its Friday low of 71.797 after the

release of the jobs data. The dollar was at 101.99 yen against the Japanese unit. The Euro was trading at \$ 1.571, compared to \$1.5710 in London after hitting a record of \$ 1.5772, according to FactSetData. The British pound was at \$1.9925.

A combination of all these factors the US economy is facing has undeniably affected the US dollar and the anticipation of again lowering interest rates may further affect oil prices. The increasing gas prices are adding more financial pressure on consumers already suffering from higher food prices, falling home values and a tight job market.

One of the factors that increase food prices is diesel fuel, which is used to transport food, industrial and consumer goods. The rise in food prices is thus inevitable. The prices of diet staples like meat, produce, bread and milk have already risen, causing the worst case of food inflation the US has experienced in 20 years.

According to the US Department of Agriculture data, food prices are up 5%. This rise is mainly due to surging commodity prices and also to a rising demand for high protein foods in emerging markets such as China and India.

Sources: NPR – National Public Radio / CNN Money

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Consumer Expectations at 35-Year Low

Growing concerns about the economy, unemployment and inflation have also pushed consumers sentiment to its lowest level.

The Conference Board, a private research group, affirms that its index of consumer confidence for March 2008 fell to 64.5, the lowest level since the war in Iraq started in 2003.

The March figures were well below those the economists had forecasted. The Index of Consumer Sentiment (confidence), also called ICS, gives a very accurate indication of the future course of the national economy. These worrisome figures suggest that many consumers could eventually tighten their spending in order to increase savings, and would possibly result in a deterioration of the current economy.

CNN polls showed that 56% of US households have already cut spending, due to increasing gas prices.

The consumer confidence continues to decrease as the state of the economy keeps worsening. Data also showed that the index of expectation was also at its lowest, representing a 35 year low.

The expectation fell to 47.9 from a revised 58 in February. The Index of consumer expectation enables researchers to understand how consumers view prospects for their own financial situation and for the



economy over the long term.

Source: Smart Money

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