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ECONOMIC NEWS UPDATE

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This is a special weekend in America. Because the Fourth of July holiday falls on Tuesday, most Americans are treating themselves to a four-day weekend. That gives us time to fire up the barbecues, catch some of "Breakfast at Wimbledon", a bit of the World Cup, and some good old American baseball.

It's not clear how many Americans remember what the holiday is all about as they march in parades and, in regions where there has been enough rain – that certainly includes most of the East Coast – to eliminate the threat of fire, set off dazzling firework displays. President Bush is jogging American memories: the holiday is a celebration of freedom from foreign oppression, won in a long war whipped up by a band of brilliant revolutionaries (aka our Founding Fathers) intent on ending English rule in the thirteen colonies.

The President believes that the war in Iraq is a similar struggle – one designed to spread democracy to a nation long ruled by serial murderer intent both on destabilising the Middle

East and supporting terrorists. The American people differ: 58% of those responding to an ABC News/Washington Post poll now say the war was not worth fighting, and an even larger portion (64%) says that Bush has no clear plan as to what to do in Iraq. Fortunately for the President and the Republican congressmen who have to face the electorate in November, 71% of Americans think the Democrats also lack a clear plan. Yet despite this massive uncertainty about the war, 68% of Americans believe that by overthrowing Saddam we have improved the lives of the Iraqi people, and 51% approve of the campaign against terrorism.

Given the TV images of the carnage in Iraq, the lack of coverage of the successes, and a press dominated by newspapers to whom George W. Bush is an accidental president out of tune with their liberal social and economic agenda, public doubts about the President's Iraq policy are no surprise. What is surprising is that as large a portion of Americans (over 60%) disapprove of his handling of the

economy as disapprove of his handling of the situation in Iraq.

The economy is, after all, continuing to grow. Last week's data revisions raised the first quarter growth rate to 5.6 percent. Ed Lazear, Chairman of the President's Council of Economic Advisers told a congressional committee that he expects the economy to grow by 3.3 percent over the next year, and that the trend that has seen the economy produce two million jobs each year since mid-2003 "is largely expected to continue with some slight moderation in 2006 and 2007."

Dr. Lazear concluded, "In short, the economy continues to grow, inflation expectations are moderate, and the labor market is strong." It doesn't get much better than that. So why the pervasive unhappiness?

Once again, the anti-Bush media play their part. For example, Lazear's assessment of the overall outlook received a lot less attention than the decision by some 43,000 auto workers to accept General Motors' and its suppliers' redundancy packages. And the 4.6 percent rise in new home sales in May received a lot less attention than did reports of rising inventories of unsold homes. Virtually unremarked was a report that durable goods orders, excluding the volatile defense and aircraft sectors, rose in May, as did shipments, bringing inventories down to levels that economists at Goldman Sachs say creates "a reasonably positive near-term outlook."

But there is more to the story than media bias. The end of the era of cheap money is driving up interest rates, causing some pain to consumers with high credit card balances, and to homeowners who chose variable rate mortgages. More important, high

gasoline prices are unnerving: many motorists fill their tanks more than once a week, and all see the high prices emblazoned on signs they pass several times every day, a constant reminder that they have no control over an important component of their cost of living.

Add to all of this a rising sense of insecurity and anxiety about the future. For share owners it is the increased volatility of share prices that has them feeling rich one day, and less rich the next. Never mind that Americans are worth more now than ever before, with balance sheets that are in great shape. The most important asset for two-thirds of Americans is their home, until now on a one-way ascent to infinite value. Suddenly, prices are easing. Not by much – about 4 percent – but, along with a weaker market for existing homes (sales down for the seventh time in nine months), by enough to remind homeowners that they might not wake up richer every morning than they were when they went to bed.

Then there are the particular situations concealed by broad averages. Yes, overall inflation is contained. But that average conceals the fact that a teenager is getting his music for less, and a car buyer is getting more car for his money, while the price of drugs bought by older people is rising at double digit annual rates.

And yes, real incomes are rising. But much of the gain is concentrated among high earners, who have the skills that immunize them from competition from millions of low-wage Chinese. Other workers are finding real income gains hard to come by, and their futures less assured as globalization increases competitive pressures.

All of these cross-currents are at play in America. Despite a growing economy, nil inflation, robust job creation, and low unemployment, by a margin of 52%-to-39% Americans say they trust Democrats to do a better job than Republicans of handling the economy. Why? My own guess is that this summer of discontent with the economy is less a result of the economy's performance and more a reflection of a growing feeling that "Things are in the saddle and ride mankind," as Ralph Waldo Emerson put it over 150 years ago.



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