



## Is The Fed Pushing The U.S. Into A Recession?

As Alan Greenspan, head of the Federal Reserve, really the financial genius most commentators make him out to be? I wonder. Under Greenspan's direction, the Fed has quadrupled interest rates during the past eighteen months; from 1 per cent to 4 per cent—with no end in sight. Greenspan is so frightened by inflation, he is determined to keep raising interest rates as long as he remains chairman of the U.S. central bank, until January 31, 2006. But is inflation really that much of a threat to the U.S. economy? Shouldn't Greenspan and his fellow Governors at the Fed worry much more about a possible slowdown in our economy? made worse by the relentless hiking of interest rates every three months.



Britain's current gloomy economic situation, brought about largely by the raising of interest rates by the Fed's equivalent, the Bank of England, should give us pause. About two years ago, the U.K. was flourishing. Housing prices were jumping 10 and 20 per cent per year. Retail sales from the lowly Marks & Spenser to the lordly Harrods, was booming. Pay packets were flush. The Bank of England decided Britain was enjoying too much of a good thing. They began both restricting the money supply and raising interest rates to "fight inflation." They kept raising rates until today, the U.K. is on the verge of a genuine recession. Housing prices have collapsed. Retail sales are way down and the ordinary British family is bracing for hard times.

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Already, signs unmistakably are pointing to a drop in economic activity. While real estate brokers keep telling homeowners that a great housing market exists, try selling a house today for its asking price. High energy prices are sapping most consumers' ability to buy the necessities of life, let alone having money left over for discretionary items. On the business front, companies as diverse as Intel and International Paper are warning about softer demand for their products. Importers are turning a wary eye on the mountains of merchandise they have ordered from Asia, wondering if they will be sold during the upcoming Holiday season.

Let's not make the same mistake as our English cousins. In attempting a "soft landing," let's not plunge our country into a severe economic dislocation that will affect all of us. Air freight is having plenty of problems, even in a supposed healthy economic climate. Domestic volume is way down and even international traffic is showing signs of weakness. Let's not make it worse.

Perhaps it is fortuitous timing that Greenspan's term of office is up in January, '06. It will be interesting to see how his successor, new Fed Chairman Ben Bernanke, will act. Will he be independent of Greenspan although he claims that Greenspan's actions on interest rates will be continued. The first six months of '06 will be crucial.



### Announcements

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## Globalization; Friend Or Foe Of America?

We all have heard the arguments endlessly. The belief that globalization is good for America. It stimulates trade; it makes all nations wealthier so they could buy more of our products. The world becomes one unified dynamo that hums like a finely tuned engine with everyone enjoying a higher standard of living. That is the theory. What is the reality? The reality is personified by Steve Miller, the new chief of Delphi Corporation, the auto parts maker. Mr. Miller recently stated that his company can avoid bankruptcy and remain competitive only if its labor force agrees to take a 70 per cent pay cut and eliminate all medical and pension benefits. Mr. Miller's statement is the true face of globalization. His frightening statement is a recipe for disaster for the thousands of employees at Delphi, many of whom have spent their entire working lives there.

## Globalization; Friend Or Foe Of America? -cont-

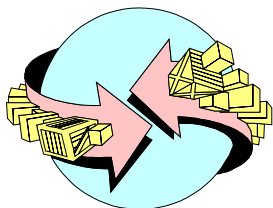
More ominously, it is a harbinger of what lies ahead for American industry as globalization becomes more prevalent. Stripped of its high flown rhetoric, globalization actually is a call to lower our standard of living here in the U.S. in order to “compete” with lower wage nations abroad. And manufacturing jobs are not the only ones affected. Employment in service industries, originally thought to be immune from lower priced competition overseas, also is becoming increasingly targeted. Just ask all those thousands of laid off customer relations people whose jobs now are handled by people in India and Bangladesh. Their English may not be perfect, but the Wells Fargos and Hewlett Packards of the world love their minimal pay levels.

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Of all the economic pundits and assorted “experts” heard on TV and perused in the newspapers, only CNN commentator Lou Dobbs seems to have gotten it right. He correctly points out that globalization simply is a euphemism for slashing of American wages to eventually become “in balance” with the much lower incomes of workers in China, India and every other nation hustling after our business. As U.S. income drops, who is going to buy all those shiny new cars or plasma TV sets? A really vicious cycle can start as income falls off, buying power recedes and unemployment rises as all jobs have flown overseas. Let’s stop this cycle before it destroys our economy.



## We Need More Balanced Trade With China:

One of the worst kept secrets in our business is the heavy imbalance of trade between the U.S. and China. Ever since China opened its doors, ever so slightly, to foreign products, the imbalance is on a 90-10 scale. While there is scarce capacity on ex-China flights, there is plenty and at very low rates, of ex-U.S. traffic.

What kind of effort can we make to balance this imbalance? As a start, let’s attempt to find out what the Chinese consumer wants, and what he or she can afford to buy from the U.S. I’m not much of a believer in opinion polls, but a recent poll sponsored by UPS could be of use to American exporters. After questioning more than 1,000 urban, middle class Chinese, the survey discovered that high quality personal care toiletries and consumer electronics lead the list of most desired American products. Apparel,

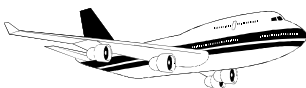


fashion accessories, music and videos were close behind while items drawing the least interest were U.S. cigarettes and liquor. American business should get on the ball and make greater efforts to market their products in China—particularly in the large cities where a middle class has sprung up almost out of nowhere. U.S. legislators also should show more common sense by not pushing for stiff imports of Chinese goods—the latest textile quota being a case in point. China’s upward mobile class may be quite prepared to buy American. Let’s encourage that desire. It would be a big boost for American industry in general and our business in particular to market our products vigorously and consistently to increase outbound trade with China. How long can our aircraft fly full from China and almost empty from the U.S.?

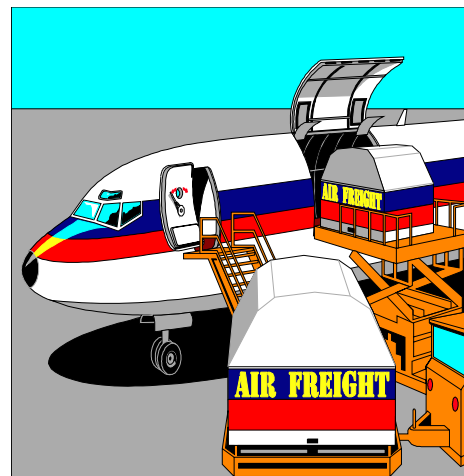
## Boeing Rejuvenation Helped By Freighters:

Not too long ago, Boeing was staggering. New aircraft orders had fallen to almost zilch. Corporate executives were caught literally with their pants down. The Pentagon was investigating overruns and outright thievery in Boeing military contracts. Today, the future looks far brighter for Boeing as it announces a more than doubling of earnings. It is our industry that can take a good deal of the credit for the almost rebirth of this largest U.S. aerospace and commercial aviation corporation

Timing is everything and Boeing is the lucky recipient of a looming wide body freighter shortage with older freighter types nearing the end of their productive lives. The company recently announced a flood of new orders for freighters and that its production line for new 747-400Fs are sold out until 2008. The company is so stuffed orders for freighters, it will take firm orders (no options) only for two or more of the 747s. Its parallel business of converting passenger aircraft into freighters also is booming with those order books full for the next three years.



Air cargo finally is getting the respect it deserves at Boeing. In the old days, manufacture of cargo airplanes was treated as little more than a footnote in Boeing’s annual reports. Passenger aircraft orders and production were trumpeted to the skies. Now, the company gives full credit to freighter production in helping to turn around Boeing’s fortunes. Let’s hope that all those shiny new 747s will be stuffed with cargo.



## The Adventures Of Sir Richard (Continued):

Sir Richard Branson is the magician of the airline industry. The master of now you see it, now you don't. His latest airline venture, Virgin America, which was supposed to start service as a low cost domestic carrier earlier this year, is very much still up in the air. His Australian airline, Virgin Blue, is in the middle of a confusing battle between two Aussie transportation titans, Toll Holdings and the Patrick Corporation. Although Virgin Blue is losing money by the bucketful,

Branson may grab a bigger share of the domestic Australian carrier. But it is his antics in attempting to crash the U.S. domestic market that makes Branson such a prestidigitator. He is pulling every trick in the Branson playbook to make something out of nothing. Huge announcements in the press, conning Airbus to agree to an order of 50 airplanes, playing hard to get in choosing corporate and operational headquarters with communities from

Boston to San Francisco falling over each other to offer grants, tax abatements and financial incentives to lure him. Meanwhile, fuel costs are rising inexorably. Existing low cost carriers like Jet Blue and Southwest keep announcing new routes. Legacy airlines are dropping their ticket prices to compete. So, where does this leave Virgin America, the phantom airline? In a phrase, "a day late and a dollar short."

## The Many Different Services Offered By CII:

In our day to day operations, we at CII sometimes take for granted the truly remarkable variety and scope of our services. As an international wholesaler with almost ten years of continued service to the forwarder, CII offers a broad array of logistics solutions. They include:

- \* Provision for web bookings in addition to bookings by telephone and fax.
- \* Track and trace services from pick-up to final delivery to the consignee.
- \* Competitive pricing.

- \* Accurate billing through automated booking confirmations, with a breakdown of all cost elements.
- \* Preferred status with major carriers to the South Pacific and Asia to ensure "no cargo left behind."

*CII remains committed to the highest levels of personal service to our more than 500 forwarder customers.*



Sincerely,

Julian A. Keeling

