THE RISE IN PRODUCTION ... AND THE COLLAPSE OF RETAIL SALES

While it is still too early to assess the accuracy of the January industrial production figures, the underlying trends in the economy since last September foreshadow a renewed, severe drop in industrial and mining output. Manufacturer's orders and shipments, capital spending, construction contracts, housing starts, retail sales, commercial and industrial loans, and state and local government spending are all contracting. The longer industrial production continues upward -- if those figures are accurate -- the greater the dimension of the production collapse when it finally occurs.

The .7 per cent rise in industrial production can be explained as a psychological effect of the talk of "recovery," rather than as evidence of the"recovery"itself. Every major statistical release by the Commerce Department, Federal Reserve Board, and Labor Department, should have otherwise convinced corporate managers to begin a sharp curtailment of production and operations. Instead they chose to believe the financial pages of major newspapers and thus producing for a non-existant market.

For example, according to the Commerce Department, retail sales dropped by .3 per cent in January providing w ich should have gone a long way towards puncturing the myth of the "consumer-led" recovery that has occupi d so many inches in the Wall Street Journal and similar places. The significance of this January drop-off is not that it represents a new trend. In every month since July with the exception of December (the Christmas season), retail sales have been flat, and with adjustments for inflation, have actually declined. What is significant about the January figures is that they represent a lawful acceleration of this downward trend. Jnnuary retail sales dropped prior to an adjustment for an inflation rate which official figures put at around 7 per cent. In addition, the decline was led by a fall off in automobile sales (-4.2 per cent). Auto sales, bouyed by an injection of consumer credit have been the main prop to retail sales since September.

As the figures indicate, the American worker and his family have already voted with their wallets on the veracity of the reports of the "recovery." While the bankers and the industrialists can lie to each other about how well things are going, the worker and his family know no such luxury. With the job market collapsing, taxes increasing and prices of necessary items of consumption continuing to increase, now that the Christmas season is over, they have chosen to buy only what they must.

In response to stagnation in retail sales over the summer months, retailers and wholesalers started in September to cut back orders from manufacturers. This trend accelerated through November and December.

The inevitable consequence of the order cutbacks began to show up in a drop in manufacturer's shipments in November and a slow-down of production in October and November. There is mystery to the reported increases in industrial production by .9 per cent and .7 per cent in December and January, respectively. There had been an artificial inflation of the consumer durable sector due primarily to an easing of interest rates on 5 year auto loans and depletion of worker's savings. There had also been an increase in the consumer light goods industry -- due to Christmas season buying. Industrialist meanwhile looking for any sign that a recovery was indeed here, seized upon these figures. With the expectation that these short-lived trends would continue into the future, production schedules were stepped up.

The December inventory figures released by the Commerce Department yesterday tend to confirm that such psychology was in operation. Retail inventories dropped by $758 million, re lecting Christmas sales. In expectation that such sales would reflect themselves in renewed orders from wholesalers and manufacturers to replenish inventories, the latter increased production. However, the retailers themselves did not take the December rise in retail sales all that seriously. They did not step up orders from wholesalers, the wholesalers proceeded to slash orders from manufacturers. Thus for the second straight month, new orders for manufacturers fell; this in turn reflected a rise in wholesale and manufacturing inventories by $117 million dollars and $115 million, respectively.

While and industry-by-industry breakdown for January industrial production is not yet available, it is likely that the sharpest increases came in the auto and auto related sectors such as steel, aluminum, rubber, and glass. In December, orders for transportation equipment including automobiles had risen by over 5 per cent (without this increase durable good orders for December would have fallen by a whopping 4.4 per cent). Significantly, these orders, mostly from car dealers, were made in anticipation of a continued rise in auto sales, as January auto sales, however, fell by 4.2 per cent. With industrial production in the light goods sector held up by Christmas sales and its expected continuation and the durable goods sector held up almost entirely by auto sales, the .3 per cent drop in retail sales in January shows what's in store for production.

Corporations, of course, have the option to continue their flight into fantasy and to produce for inventory rather than sales for a few more months -- at the expense of their own internal liquidity.

THE UNEMPLOYMENT HOAX

Economists, however, will insist that it is wrong to make such dismal forcasts on the basis of a one month's drop in retail sales.

The head of the President's Council of Economic Advisors told a Feb. 10 National Press Club breakfast that he is looking for "increased consumer demand" to give stimulus to the economy. Greenspan, among others, base such expectations on a rise in personal income; and they base that rise in personal income on the reported drop in unemployment rate. A major flaw, but by no means the only flaw, in this reasoning is the reliance of such "economists" on the Labor Department fraudulent unemployment statistics.