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Price Inflation Threatens New Ratchet Collapse Of U.S. Industry

NEW YORK, April 17 (IPS) — A new round of hyperinflationary price increases by producers of industrial materials threatens to quickly trigger the next ratchet in the collapse of U.S. industry. The price hikes, which are occurring despite continued pileups of unsold inventories and a lack of increased demand from industrial users, could force industrialists to shut down what remains of U.S. capacity, throwing millions in the U.S. out of work.

In the last three business days, the Journal of Commerce index of 15 industrial materials galloped ahead at an annual rate of 120 per cent. The price hike trend began in mid-March. Since then lead prices rose 22 per cent while copper prices rose 11 percent since late March. This week U.S. Steel announced plans to increase prices an average of 6 per cent on certain lines May 1.

The price increases will be catastrophic for the corporations which impose them. Steel producers who specialize in sheet steel are operating at 100 per cent capacity, but barely breaking even. If they raise prices to recover profitability, however, they will snuff out the auto "recovery" — their primary market.

With the market for capital goods depressed and construction at a near standstill, the only basis for an increased demand for primary metals would be a speculative inventory buildup, in anticipation of an inflationary spiral. Precisely this sort of speculative bubble is already occurring in copper.

Dept. I Industries Squeezed

Department I industries (producers of semi-finished industrial materials and capital goods) are feeling the severest effects of the profits crisis. The expansion of consumer credit, tax rebates, recovery propaganda, and sales gimmicks which gave a slight boost to consumers industries, had only a marginal effect on industrial materials producers by stimulating demand from manufacturers of autos and some home appliances. They have squeezed out dwindling profits by cannibalizing their workforce along with existing plant and equipment. In the effort to recover profits some steel, copper, and other primary metals producers have permanently shut down idle plants which are old and uncompetitive under current market conditions.

The next step is to go for price increases — at the expense of setting off an inflationary collapse. There is talk of a 10 per cent increase for primary aluminum ingots by mid-1976 despite the fact that producers' inventories reached an incredible 6 billion pounds in 1975 and are not expected to reach the so-called normal level until late 1977. The aluminum industry is producing those huge inventories although it is operating only at about 75 per cent capacity.

Nevertheless the industry has to raise its prices to stay afloat. April 14, Kaiser reported a 62 per cent drop in its first quarter profits from 1975. The next day, Alcoa announced a 21 per cent profits drop, despite the fact that sales were up 13 per cent. Alcoa attributed the decline to the high cost of carrying both inventories and a 25 per cent idle smelter capacity — factors which are plaguing the whole of the primary metals sector.

Speculative Boom

The 11 per cent rise in copper prices since late March has nothing to do with increased demand for the material for industrial use. World stockpiles of copper are at a record 500,000 tons. The source of the rise in U.S. producers' prices to over 70 cents a pound is entirely the speculative boom on the commodities market, kicked off in early March by the collapse of the British pound sterling and other currencies. Since that time the price of copper on the London Metals Exchange has soared by 30 per cent, approaching 1974 record levels, while copper traders point out that they still have not heard anything about a recovery in electrical appliances or housing. To the extent that there has been some buying by manufacturers, it has been out of fear that prices will soar further. U.S. copper producers took advantage of this spectacular rise on the metals exchange to boost their lagging profits.

U.S. Steel announced price increases averaging 6 per cent on certain pipe and tubing products and about 7 per cent on standard steel rails April 15. Various industry analysts said U.S. Steel is cautiously "testing the waters" for possible increases on higher volume items such as flat rolled steel, weighing the market and Washington. Other steel companies are reportedly "studying" the move. Some industry analysts have already warned, however, that the price increases might not stick. American Iron and Steel Institute statistics show that shipments of these products during January and February 1976 were off 34 per cent from the previous year.

The last time the steel industry attempted to raise prices substantially, in September 1975, it was warned from all quarters that the "recovery" was not yet strong enough. Six months later the industry needs the price increases even more desperately but the "recovery" has yet to gain two legs to stand on.

A New Commodity Bubble

Due to currency speculation, wars, and weather disasters, the prices of major commodities are now rising uncontrollably — without any evidence of recovery-instigated demand. While there has been some buying by manufacturers, it has been at minimum levels and largely due to fears that the prices will rise even higher. The Financial Times of London devoted major editorial page coverage to the boom on April 14 warning of the inflationary pressures it would exert in the industrialized countries. This is the first time in two years that the prices of tin, copper, lead, zinc, coffee, and cocoa have taken off. In general, the prices are still nowhere near their 1974 highs, but there are also no signs of the price increases slowing down.

In response to the "boom," seven unregistered offshore funds have been launched in recent months for the explicit purpose of speculation on the London market. This week's Barron's reported that some of the funds are managed or advised by high price Wall St. firms like N.M. Rothchild, Merrill Lynch, and S.G. Warburg, as well as some go-go commodity brokers. "Whatever they do," Barron's reports, "investors buy their shares in order to protect themselves from currency depreciation and from inflation, while hoping to make a profit by playing the commodity cycle."

This sort of speculative activity takes place at the end of every capitalist business cycle when confidence in currency is at a low point — viz. the famous South Sea Bubble, in which everyone involved lost their shirts.

Here are a few of the most dramatic price rises so far:

***Copper** has risen from 500 pound sterling per ton metric in 1975 to 600 pounds in 1976 to 800 pounds last week. Copper in particular is the traditional hedge against sterling. Copper's price started to zoom as soon as sterling began its plunge in early March. The unlikelihood that new supplies will be leaving Zaire and Zambia in the next few months is the other factor pushing up the price.

***Coffee** prices have zoomed from 400 pounds sterling per metric ton in 1975 to 900 pounds at the beginning of 1976 to over 1200 pounds in the past month. Last year's Brazilian frost reduced the largest coffee exporter's product from 27 million bags (of 60 kilos each) to 8 million, The civil war in Angola, an earthquake in Guatemala, and a poor crop in Columbia are also helping to push the price to historic highs.

***Cocoa** prices have risen from below 500 pounds sterling per metric ton in 1975 to over 900 pounds this month as producers cannot keep up with demand; Debt burdened Ghana, the world's largest producer, has been unable to replenish its cocoa trees or provide irrigation and fertilizer.