The auto inventory hoax shows why there is no U.S. recovery

by Leif Johnson

The press, economists, analysts, and certain government officials are setting up America's business managers for a fall. Buoyed by the euphoria of a "recovery," many of these businessmen are rebuilding inventory that they will not be able to sell.

By financing unsaleable inventory, or selling it off at heavy loss (making the wholesale price index decline), these managers may find themselves worse off in three to six months than if they had not expanded their current purchases. In some cases, their misjudgment will cost them a Chapter 11 bankruptcy.

There is no recovery under way in the United States; instead, the economy remains fixed on the course forecast by the December 1982 LaRouche-Riemann econometric report of a 3 to 15 percent decline in real output over the span of 1983. This can be seen in the strong downward trend in capital spending, the rising rate of unemployment, and the collapsing prospects for U.S. exports as both advanced- and developing-sector nations follow the U.S. lead into the Second Great Depression.

The recent economic "good news," including the rise in durable goods orders, housing starts, and auto production, with a hint of upturn in steel, largely represents purchase of business managers among themselves. Thus the present "upturn" rests on manufacturers' swapping of short-term credits.

Capital goods decline

Capital spending for plant and equipment in non-farm business (measured in 1975 dollars) fell from $197.7 billion in 1982 to only $180.5 billion in the fourth quarter of 1982. The corresponding trend in durable goods manufacturers capital spending, a good indicator of the present and future state of American manufacturing, was a decline of more than 15 percent, from $38 billion in 1981 to $32.1 billion in the fourth quarter of 1982.

This decline may steepen. The domestic steel industry, whose six largest producers reported a cumulative $3 billion loss in 1982, and claim to lose from $38 to $109 with each ton of steel shipped, expects major cutbacks in capital spending. According to industry spokesmen, the industry may allocate as little as $1.5 billion to capital spending during 1983, less than half the average which has been spent over recent years.

The machine-tool industry, whose parlous state was described in *EIR*'s Nov. 2, 1982 quarterly report on the U.S. economy, continues to suffer severe depression. While machine-tool producers describe a great deal of price quoting (shopping around), they indicate that without a 50 percent jump in new orders this year, many companies will not survive through 1983.

Even the characteristically optimistic corporate forecasts of capital spending shows a major downward revision between November 1982 and February 1983. The November survey of business economists by the National Association of Business Economists predicted a 2.3 percent increase in capital spending in 1983; by February, they were predicting only a 0.2 percent increase and among manufacturing firms, a decrease of 1.5 percent over the very low figures for fourth quarter 1982.

The employment picture

In that forecast, the business economists moved up their prediction of fourth-quarter 1983 unemployment from 9.2 percent in November to 9.9 percent in February. (Yet these economists claim that the economy will be growing at a 4.3 percent rate by that same last quarter in 1983.)

Meanwhile, the January unemployment decline reported Feb. 4 by the Bureau of Labor Statistics (BLS) made front-page headlines nationally, but that report was a falsehood. For the first time, the men and women in the armed forces stationed in the United States were included among the employed; that added 135,000 "employed." Then the BLS dropped 736,000 from the labor force between December 1982 and January 1983, claiming that, although this was a highly unusual increase in the number of people not in the labor force, it was the result of their customary sampling

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procedures, and thus it was justified.

Weather and the economy further assisted the BLS. With unusually mild weather, and interest rates tending downward, January saw an unexpected increase in construction employment, while a by-product of low Christmas season hiring was lower seasonal-worker unemployment in January.

A somewhat shamefaced BLS commissioner, Karen Norwood, told the Joint Economic Committee of Congress on Feb. 4 that "The data show real improvement, but the improvement may be exaggerated. The developments are clearly positive, but their magnitude is hard to determine with precision." The *EIR*'s estimate of U.S. unemployment is currently 25 million—an "imprecision" by the BLS of about 15 million Americans. Note that over the past four months, joblessness rose sharply among white-collar workers previously sheltered from the Volcker downturn.

With such a burden of unemployment, how is it expected that consumers will create an economic recovery with their purchases? Consumer credit outstanding fell 3 percent between 1981 and 1982; government transfer payments, including Social Security, will fall this year; savings and loan association lending fell to about $50 billion in 1982, half the level of 1979, not counting inflation.

As an executive of a home appliance and electronics association explained, "Some of our members are happy that there is an uptick in sales, but then they realize that they are probably selling at loss or breakeven. We are using very heavy promotion to get the sales."

The optimism reported at the recent Las Vegas convention of the National Automobile Dealers Association does not appear to have its basis in an increase in sales. According to the Motor Vehicle Manufacturers Association, after 558,146 domestically produced cars were sold in November, the figure dropped to 448,048 in December 1982 and fell to 412,893 in January. Even imports declined slightly. Then came the sales plunge in February. Based on the first two-thirds of the month, sales are expected to dip to slightly under 400,000. The problem is that the manufacturers are adhering to their planned first-quarter production increases, producing an extraordinary rise in unsold inventory, producing in February alone between 80,000 and 85,000 more cars than will be sold.

By the end of December, inventory had dropped to 1,126,00, but because sales weakened, the inventory backlog rose to 65 days, already above the 60-day level considered normal and acceptable by the industry. The month-end backlog is calculated by dividing the inventory by the daily sales rate for that month. In January the inventory increased to 1,180,000 for a backlog of 71 days. February's inventory backlog is expected to reach 1,263,000, or a supply of 81 days' worth of unsold autos. The question now is how much longer the manufacturers can unload unsaleable autos on the dealers, and how many dealers will be bankrupted as a result.

Other figures show an indifferent pattern of economic activity, as would be expected from a mere inventory buildup. Electrical output increased from a weekly average of 42,974 millions of kilowatt-hours in December to a January average of 44,428, while rail traffic declined from December's weekly average of 14.2 billion ton miles to 14.0 in January. Steel utilization improved from as low as 30 percent in December to 43.4 percent in January—a figure still at depression levels.

Two figures showing an increase were new housing starts and the industrial production index compiled by the Federal Reserve Board. Housing starts jumped to an 1.7 million units at an annualized rate, the largest figure since the Volcker recession began. How many in the growing ranks of the unemployed will buy homes sometime during the spring and summer?

The rise in the industrial production index largely reflects an increase in home appliances and military production. According to Mickey Walker of the National Appliance and Radio-TV Dealers Association, "Dealers weren't buying for the last six months, but now they are replenishing their stock."

Military production, which has had such strong impact on durable goods orders statistics, is expected to continue to increase, although this will have a small effect on the overall economy.

The statistic that has shown the most impressive rise in the first weeks of 1983 has been the number of commercial and business failures. In the first six weeks of the year, there were 3,606 failures, a 41 percent increase over the 2,560 failures in the comparable period of the previous year. And 1981's total of 16,794 failures was more than twice that of 1979, at the onset of the Depression. At the current rate, 1983 would see 36,000 failures, with liabilities of $10 billion.

Trade contraction

If the domestic economy shows poor promise of an internally generated recovery, the prospects for an export-led recovery are even worse. The wreckage of the importing capacities of the developing nations and the disruption of the advanced-sector economies point to further declines in U.S. exports.

The case of Mexico is extreme but may become paradigmatic, particularly if world oil prices become unhinged. In 1981, Mexico imported $17.4 billion worth of goods from the United States. With the financial crisis of August 1982, imports froze abruptly, with the year showing only $13.0 billion worth of U.S. imports. The Mexican government recently projected, before the oil price decline, that total imports for 1983 will fall to $11 billion. The United States share would be about $8.0 billion.

The *EIR*'s November 1982 projection of a 20 percent decline in the physical volume of U.S. exports in 1983 now appears to be materializing. In 1982, U.S. merchandise exports fell by 12.8 percent—a steady rate of about 1 percent a month, which, assuming no generalized financial collapse occurs, should fall at a slightly higher rate through 1983.