Business Briefs

Developing Sector

Indian steel industry stagnating

Reports published by the Steel Authority of India (SAIL) show that India's steel industry is in total disarray. The inventory level in 1982-83 has reached a record 1.5 million tons—almost 16 percent of India's present annual steel consumption—with no visible signs of improvement in the domestic demand.

India's meager steel consumption—a clear indicator of a stagnating economy—was slashed further last year when the demand of the heavy industry sector dropped by more than 75,000 tons. The Central Electricity Authority reduced its consumption by 231,000 tons, railways by 107,000 tons, and the small industry sector by 21,000 tons. During fiscal year 1982-83, the total consumption of steel was reduced to 9.5 million tons, 1.5 million tons less than what was projected at the beginning of the year.

In the mid-April report, the SAIL projects a gloomy situation for the steel industry in the current year, unless the government takes special measures to increase production in steel and wagon manufacturing, shipbuilding, and rolling-stock manufacturing, all of which are undergoing serious cutbacks. One reason given for such cutbacks is the recent drop in exports to once-booming Middle East and African countries, which accounted for at least 1.5 million tons of Indian steel exports in earlier years.

Although India's actual overall steel demand for the fiscal year 1983-84 is projected at 9.5 million tons, SAIL forecasts that the consumption in the public sector, which accounts for 80 percent of the total, will be less because of resource restraints.

World Trade

Japan's Nakasone tours the ASEAN nations

Japanese Prime Minister Yasuhiro Nakasone began a tour April 30 of the Southeast Asian nations grouped in ASEAN (Thailand, Malaysia, Singapore, Indonesia, and the Philippines) to discuss both bilateral political and economic relations and the international economic situation. The Japanese premier's tour immediately precedes the May Williamsburg economic summit, and the Japanese are consulting with the ASEAN countries, and separately with the Chinese, on their views on the Williamsburg summit.

Nakasone met with President Suharto of Indonesia April 30 for two and one-half hours of talks. Japan extended to Indonesia a $285 million loan, and discussed ways to expand trade between Japan and ASEAN.

Nakasone proposed a five-point program for Japan-ASEAN expansion of friendship, including expanded trade, Japanese renovation of ASEAN factories, a personnel exchange program so as to train ASEAN people in Japan, and establishment of an ASEAN-Japan ministerial council on science and technology.

According to Japanese press reports on the meeting of OECD finance ministers the week of April 25 in Washington and the meeting of trade ministers in Brussels—all to prepare for Williamsburg—the Japanese government intends to make the developing sector debt problem a major topic of discussion. Well-informed Japanese sources also confirm that Nakasone intends to bring up in informal discussion the proposed construction of a second Panama canal and the broader concept of a global infrastructure fund for similar large-scale development projects in the developing sector.

International Credit

OPEC announces record $50 billion deficit

The OPEC headquarters in Vienna announced May 2 that the 13 members of the cartel will run a record $50 billion deficit this year as a result of the collapse of OPEC oil exports and prices.

Of that projected deficit, Saudi Arabia will run at least a $10 billion shortfall. Saudi King Fahd has already announced that the kingdom will withdraw at least $10 billion in foreign investments to cover that deficit to keep the Saudi Development Plan going.

Even the wealthiest members of OPEC, the states of the Persian Gulf, are making substantial cutbacks in spending to meet the dramatic decline in oil income. The United Arab Emirates announced the week of April 25 that it will lay off 1,700 foreign workers and also begin cutting back on domestic social programs including cutting free medical care to certain categories of foreign workers. According to sources in Saudi Arabia, the U.S.-Saudi oil company Aramco is preparing to cut its personnel by 50 percent.

Nigeria is in the most critical situation of any OPEC nation. Nigerian short-term debt is variously estimated to be between $3 billion and $6 billion. That debt was accumulated as a result of the collapse of Nigerian oil income to finance imports.

U.S. Economy

Business Week seems to change its line

When the Department of Commerce reported that February's consumer sales fell 0.4 percent from January's, *Business Week* magazine devoted an entire feature in its March 28 issue to proving that things were not so bad.

In "Sales Are Stronger Than They Seem," *Business Week* quotes numerous retail sales executives boasting about their business. Under the subtitle "The Best In Years," the magazine writes that K-Mart logged an 8.6 percent sales gain in February, Sears 4.3 percent, Federated 13 percent, and Dayton Hudson Corp. 23 percent.

On May 2, barely six weeks later, *Business Week* chief Outlook editor William B. Franklin writes, "The recovery is not as strong as the numbers suggest." Franklin has noticed that the uptick in production in the first quarter came from a rebuilding of inventory, not from consumer and other sales. In an accompanying article, "Inventories Could Hobble the Recovery," the editors discover that not only have consumer sales not risen, of which they were so confident in late March, but indeed had fallen from December to January and remained flat for February and March. While the magazine's figures are still marginally erroneous, it is clear that they had the real January and February statistics when they wrote their earlier "Sales are stronger than they seem."

Domestic Finance

Mortgage sector wants to free up funds

The U.S. Senate Housing and Urban Affairs Subcommittee held hearings May 4 and 5 on requests from the Federal National Mortgage Association (Fannie Mae) for a change in its statutes, which would allow the quasi-governmental agency to free up its portfolio from a large backload of low-interest mortgages.

The Fannie Mae legislative request stirred opposition among numbers of private finance companies, which claim that Fannie Mae could become unduly competitive, and undermine their share of the mortgage market, because of privileges the agency enjoys through access to government guarantees. Among the most emphatic of the opponents was the Mortgage Insurance Companies of America, the association of mortgage insurance firms.

The dispute at the hearings was surprisingly heated, considering the highly technical nature of the issues involved. Private companies argued that Fannie Mae's directors had exerted unfair pressure on them to support the bill, taking advantage of their government connections. Underlying the controversy is the pressure being exerted on the construction financing industry overall, due to rapidly proceeding deregulation of U.S. financial institutions. Increasingly, mortgage financiers are ceasing to finance mortgages directly and are moving toward becoming intermediaries for large, money-market-based brokerage houses, for whom they issue and then pass on mortgages. Under these conditions, funds are becoming scarcer, and fewer institutions can operate profitably in the industry.

Agriculture

Reagan accepts grain agreement with U.S.S.R.

The April 22 presidential announcement that the United States was prepared to negotiate a new long-term grain sales agreement with the Soviet Union reverses the State Department's four-year refusal to sign such an agreement. Commodity traders claim that the announcement is more a result of Capitol Hill pressure more than a change in White House thinking.

The news was met with optimism that the 3.9 billion bushel wheat stocks will at last be sold before they decay. The Soviets have not yet responded to the offer.

Although the Carter administration embargo on grain sales to the U.S.S.R. was lifted by President Reagan in 1981, the 1976 grain sales agreement was left to expire. It has been renewed on a yearly basis, the current one being due to expire Sept. 30. Under the agreements, the Soviets were to buy a minimum of 6 million tons of U.S. grain annually, with a maximum of 15 million tons. This year the Soviets just met their agreement by purchasing 6.1 million metric tons of wheat and corn. In 1982 the Soviets bought 15 million metric tons from the U.S. out of total imports of over 40 million tons.

Since the grain embargo, the United States' share of Soviet grain purchases fell from 75 percent to 25 percent. Grain trade observers are predicting that the Soviets will increase their share of U.S. purchases this year because of poor Soviet harvests.

Agriculture

USDA: 'all the corn needed for PIK'

The U.S. Department of Agriculture announced April 22 that it had acquired 1.1 billion bushels of grain under its loan forfeiture offer for use in the Payment-In-Kind program, which awards farmers surplus grain for not planting crops.

The Commodity Credit Corporation acquired slightly more than it needed for corn, slightly less than the quantity of sorghum needed and less than two-thirds of the wheat still needed to pay farmers signed up for the program. The acquisitions came from supplies held as collateral for loans the farmers received from government programs.

The amount of grain forfeited shows that farmers were, as USDA had predicted in February, too debt-strapped to repay their grain storage loans, and "just walked away from it."

Briefly

● **SIR ROY DENMAN,** head of the European Community delegation to Washington, told reporters May 5 that a strong stand against trade protectionism will probably be the only firm outcome of the Williamsburg heads-of-state meeting later this month. Outside of such a "reaffirmation" of the consensus of the GATT ministerial meeting from last autumn, Denman warned, nothing of importance should be expected from the summit. Denman's characterization fits a pattern of statements recently from international financial officials who want to use trade conflicts as a way of avoiding serious international deliberation on debt problems.

● **THE WALL STREET** Journal has joined the campaign to popularize Adolf Hitler during the year that marks the 50th anniversary of his coming to power in Germany. In a front-page article May 4, the *Journal* describes how Hitler memorabilia are "stirring up interest as never before." The article describes in detail the money being made in speculation on Hitler autographs, and the profits generated by books and articles on the Third Reich.

● **BRAZIL** is already in violation of every quantitative condition set by the IMF in February, despite real reductions in money supply which have sent interest rates up to 23 percent per month. Cause: inflation caused by the 30-percent devaluation forced by the IMF itself. Brazil may try to renegotiate conditions, tighten the screws further, or just tell the IMF to mind its own business.

● **LAWRENCE CHIMERINE,** chairman of the prestigious Chase Econometrics, told a leading business publication that "the recent pace of output gains cannot be sustained at the current pace of sales." Mr. Chimerine also ventured, "I think there has been some small degree of unintended inventory accumulation."