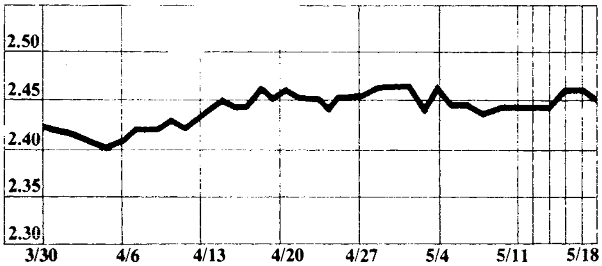
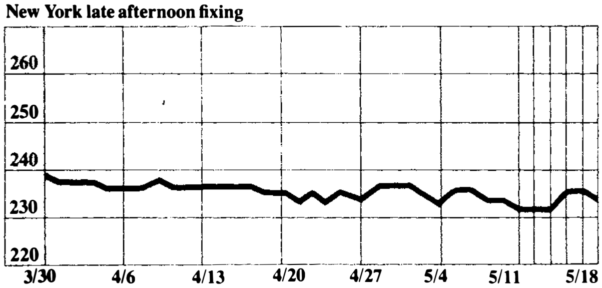
Currency Rates

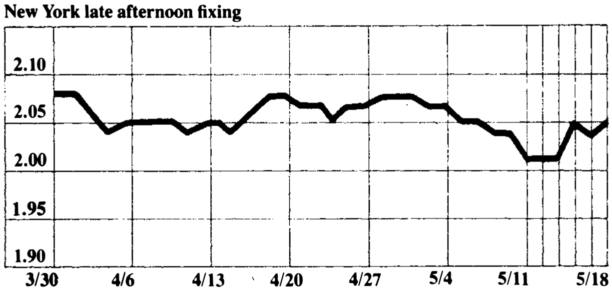
The dollar in deutschemarks
New York late afternoon fixing



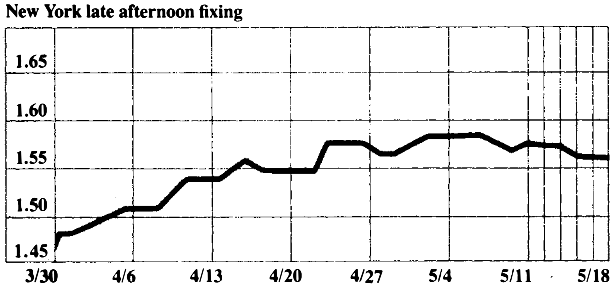
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



U.S. uptick doesn't add up to recovery

by Leif Johnson

The April U.S. industrial production index demonstrates a remarkable pattern of change as the "recovery" continues.

Although it is tempting to focus on the reported April rise of 2.1 percent over March, and note the rising trend since last December, an evaluation of the composition of the change in the index by sector since last November is unsettling. The consumer durables sectors and residential building have shown significant output increase; but nearly half of the industrial sectors (measured by their contribution to total output) have either remained flat or declined.

How the sectors shape up

We examine first the industrial gainers in terms of both their November-April change and their contribution to the overall 5.3 percent November-April increase in the industrial production index. Among the finished products sectors, consumer durables has been an outstanding gainer. Output rose 13.1 percent from November to April, contributing 1.04 percent to the overall rise in industrial output. Of this increase, the 23.3 percent rise in auto assemblies contributed two-thirds.

The auto companies pursued a policy of "deliberate overbuild" relative to the existing market, while imposing General Motors' "lean and mean" cost reduction policies. That meant as little capital expenditure as possible, a reduction of manufacturing supplies inventory to the proverbial bone, and wresting "givebacks" on work rules and conditions.

The companies were notably successful. In the first quarter of 1982, the companies produced 1,070,995 autos with a workforce of 304,000; in the same quarter of 1983, the companies produced 1,500,872 cars with a workforce of 307,000. Yet with unemployment 2 million greater this spring than last, the problem was to sell the autos they had produced. Interest rates on auto loans were thus subsidized, first down to a 12.8 percent level in the first quarter, then down to 9.8 percent in April. The companies still produced 75,000 more autos than they sold in the first four months of this year.

In the November-April period, construction supplies output rose by 10.7 percent, contributing about two-thirds of a percent to the total index rise. This increase is entirely attributable to residential construction. In the first four months of 1983 residential construction contracts rose to $25.3 billion, 66 percent over the year-earlier period, while non-residential building fell by 10 percent and non-building construction by 11 percent.

The rise in autos, home furnishings (including appliances), and residential construction created, in turn, the bulk of the demand for intermediate durable industrial materials, which rose 14.7 percent during November-April. Since industrial durable materials constitute 20.4 percent of all industrial output, they contributed a very hefty 3.0 percent to the overall industrial index rise. An 8.0 percent rise in non-durable industrial materials, also brought on by the residential construction and consumer durables increases, added 0.8 percent to the final industrial index.

That side of the balance sheet looks good, although we must remember that its continuation in the short run is entirely dependent on preventing a rise in interest rates and in the longer term on cutting unemployment.

What about capital goods?

Ultimately, the consumer products industries, like all industries, must begin to renew their capital equipment. It is this sector of the economy, along with non-durable consumer goods (food, consumer chemicals, clothing), that remains in a depressionary slump. The worst is business equipment, which accounts for 12.6 percent of all industrial output. From November to April this sector fell 2.2 percent, contributing to a 0.3 percent negative factor in the overall industrial index. Industrial equipment slumped 4.9 percent over the five-month period while building and mining equipment plunged 17.0 percent, mostly because of the collapse of the domestic oil industry but also because of reduced coal and non-ferrous ore mining.

Business supplies and energy materials, which together make up 15 percent of all industrial output, increased only 1.45 percent since last November, and contributed only 0.13 percent to the overall industrial index, signifying the essential flatness in basic industries.

It is this peculiar "twist" that warns us that the economy is not in a real recovery pattern. Recovery cannot merely mean increased production in several finished goods sectors, but must include a substantial and prolonged rise in overall activity, including particularly the output of the capital goods upon which future higher levels of production are based. Perhaps the most ominous sign of upside-down economic thinking is the boast by auto manufacturers in particular that they are able to increase productivity (they now claim to beat Japan in auto costs) without the necessary capital investment.