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# The sad truth about the real U.S. economy

by Richard Freeman

An indelible indicator of the deterioration of the U.S. physical economy, is the free fall of five critical sectors of the economy: machine tools, farm equipment, steel, aircraft, and oil and gas exploration. These sectors are critical for the economy's functioning and the population's survival; without them, no economy can continue. The world financial-economic disintegration has damaged the economies of Asia, Russia, eastern Europe, and Brazil and Ibero-America generally, whose orders for U.S. goods have contracted sharply. Thus, the contraction is also hitting the United States.

The fall in these five sectors tells that the U.S. economy is collapsing into a depression at an astonishing rate, accelerating the rate of contraction of the U.S. physical economy over the last years.

The U.S. Commerce Department and the financial media continue to put out stories that the United States is in the "eighth year of an economic expansion," and support that claim with the report that real U.S. Gross Domestic Product (GDP) rose 5.6% in the fourth quarter of 1998. That this is nonsense can be seen by examining the five critical sectors of the economy:

**Machine tools:** U.S. consumption of machine tools in December 1998, at $482 million, plunged 39% from the level of $787 million in December 1997, the American Association for Manufacturing Technology and the American Machine Tool Distributors' Association announced.

For 1998, U.S. consumption of machine tools stood at $7.6 billion, down 12% from 1997. Let us situate the difference between the year-to-year comparison fall of 12%, and the December 1998 to December 1997 monthly fall of 39%: For the first half of 1998, U.S. industry's consumption of machine tools was at or slightly above the first half of 1997. Machine tool consumption fell, starting approximately late August, early September. Then, with each succeeding month, the rate of fall accelerated, as the downward trajectory of the economy grew steeper.

The December 1998 to December 1997 fall of 39% highlights that the consumption during the year was not an even process, but that the rate of fall is increasing, defining the steeply lower trajectory that is prevailing for the present and immediate future.

This accelerating collapse toward the end of 1998 holds true for all the critical sectors under consideration.

**Farm equipment:** In January 1999, sales of U.S.-manufactured two-wheel-drive tractors of greater than 100 horsepower, at 1,689 tractors, fell 25.4% from the level of January 1998, when 2,263 such tractors were produced. The two-wheel-drive tractor of greater than 100 horsepower is the standard on most European and many American farms. Further, between January 1998 and January 1999, sales of U.S.-manufactured four-wheel-drive tractors, the larger tractors that are workhorses on many American farms, plunged 33%; and during the same period, the sales of combines plunged 41.8%.

The fall in U.S. farm equipment production is due both to the cancellation of orders from Asia, and to the collapse in U.S. farm income. This has strategic significance: America produces one-third of the world's farm equipment, and of the amount it produces, it would normally export one-quarter, making it the world's largest exporter.

The problem in the farm equipment sector is exemplified by Case Corp., based in Racine, Wisconsin, which is America's second-largest farm equipment manufacturer (after Deere & Co.). In fourth-quarter 1998, Case suffered a loss of more than $90 million, and it announced a production cutback and the layoff of approximately 1,300 workers. In mid-September, Case had already announced the firing of 1,000 workers. In total, counting layoffs prior to September, Case plans to reduce its workforce by 3,400 by the end of 1999, which represents 19% of its 18,000-person workforce.

**Steel:** In December 1998, U.S. steel mills shipped 7.36 million net short tons, a decrease of 14.9% from the 8.65 million net short tons shipped in December 1997, the American Iron and Steel Institute reported.

But the trend downward is even worse, if one measures the capacity-utilization rate (i.e., how much of the existing capacity is in use) of the steel industry. In December 1998, the steel industry's capacity-utilization rate was 74.8%, down from 86.3% in December 1997, and from more than 92% in early 1997. As capacity shuts down, the steel industry has been laying off workers.

There is a threefold process pushing forward the collapse in the U.S. steel industry, all deriving from the worldwide financial-economic disintegration. First, nations that produce steel, such as Brazil, Russia, Japan, India, and Indonesia, which in many cases are desperate to earn foreign exchange to pay off debts and/or provide for essential imports, have been shipping large volumes of steel products, especially flat-rolled steel, into the United States. Second, though the United States is not a large steel exporter, the market in Asia and elsewhere for several exported U.S.-manufactured goods that use steel in their make-up, has fallen, thereby reducing the demand for U.S. steel. Third,



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as the U.S. economy contracts, the production of machine tools, farm equipment, oil drilling equipment, and so on, falls, and the demand for steel that would go into each of these products falls.

**Aircraft production:** On Dec. 4, 1998, a spokesman for the Seattle, Washington-based Boeing Corp. announced that the number of "deferred orders," mostly by Asian nations devastated by the financial crisis, had reached more than 100 aircraft. The expression "deferred order" in most cases is a euphemism for cancellation. Most of the cancelled planes were Boeing 747s, which account for nearly half the operating profit of its commercial jet division, by far Boeing's largest division.

On Dec. 2, 1998, Boeing, which is America's 11th-largest company and largest exporter, and which produces more than 60% of the world's large aircraft (planes with a capacity of 100 seats or more), announced that it would lay off an additional 20,000 workers, on top of the 28,000 layoffs it had already announced. The combined 48,000 layoffs represent 20.2% of Boeing's total workforce of 238,000.

Boeing has announced that it will, over months, reduce its production of 747s from 5.0 per month, to 3.5 per month; of the newer 777s, from 7.0 per month, to 5.0 per month by the end of 1999; and so forth. Due to Boeing's dominance of U.S. (and world) aircraft production, its cuts are sending the U.S. civilian aircraft industry downward.

**Oil drilling and production:** On Feb. 17, on the New York Mercantile Exchange, the price of oil for April delivery dropped to $11.50 per barrel, its lowest level in more than a decade. In west Texas, America's largest oil-producing region, today only 70 oil rigs are operating, compared to 220-250 at the beginning of 1998.

The collapse of these five critical industries defines a directionality of fall of, not 3-5%, but of anywhere from 15% to more than 40%.

## Gross Domestic Product

By contrast, the Gross Domestic Product index has little connection to reality. On Jan. 29, the Bureau of Economic Analysis of the Commerce Department released figures on real (inflation-adjusted) GDP, purporting to show that real GDP had risen by 5.6% in the fourth quarter of 1998, and by 3.9% for the whole of 1998. But how credible is it to say that the economy expanded by 5.6% in the fourth quarter, while during that same quarter, output and consumption of machine tools, farm equipment, steel, and so forth plummeted by large amounts? What kind of economy, and how well equipped for production of the continued survival of the human race can it be, when the alleged GDP metric of growth rises 5.6%, when every basic industry needed for human existence is far down?

The answer is that GDP bears no connection to real economic activity. GDP does not measure growth; it measures the expansion of the vitiating post-industrial economy. According to Commerce Department figures, in 1987, the "goods-producing" portion of GDP (manufacturing, agriculture, mining, transportation, and construction) comprised only 36.4% of GDP; and the "non-goods-producing portion" (wholesale, retail, services, and government) constituted 63.6% of GDP. By 1997, the last year of available figures, the "goods-producing" portion of GDP was down to 32.9% of GDP; the combined "non-goods-producing" sectors of wholesale, retail, services, and government constituted 67.1%. By itself, financial services made up 18.9%, i.e., nearly one-fifth of GDP.

GDP's purview is not real growth; rather, it measures the transformation of the United States into a post-industrial economy. The more the economy shifts into a post-industrial phase, the more the "non-goods producing" portion of GDP grows, spurred on by the cancerous growth of financial services. This is what swelled GDP in 1998.

But, a post-industrial economy is incapable of producing its own existence.

The real condition of the U.S. physical economy is quite different, as is indicated by the collapse of the five critical sectors of the economy. By this standard, with these five sectors imploding, the U.S. economy is in a worsening depression.

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