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P.O. Box 1972, G.P.O.
New York, New York 10001
Editorial (212)279-5950
Customer Service (212)564-8529

Financial Newsletter

DOMESTIC MARKET NEWS

THE POST CHRISTMAS SHUTDOWN

Dec. 27 (IPS)--For the last few years at this time, the nation's "economic analysts" attempt to cut through the months of gloomy statistics and find the silver lining that points toward an "economic recovery." This year these analysts' newspaper columns, this week, featured stories about "the reason for rejoicing..." the long awaited recovery of the U.S. economy "is now underway."

While most analysts based their projections on the "mood of confidence on the markets," more sober minds dismissed their fantasies. One commentator quoted in a New York paper, stated cynically, "it's easy to find a reason to rejoice... all the markets are shut-down!"

Recently released economic reports have confirmed IPS projections that massive post-Christmas production shutdown is in the offing. Using figures made available over the last week, the latest issue of the perpetually optimistic financial magazine Business Week admitted that its industrial index had "flattened out" since October and is now registering slight - if any - growth for the month of December. Since this index is subject to gross manipulation to give it its rose-tinted character, a "flattening out" can only indicate a deep, deep slump.

U.S. industrialists are thus faced with a fundamental paradox this Christmas: as long as the bloated debt structure of the U.S. dollar sector is allowed to remain in place - i.e., efforts are made to secure repayment on the trillions in outstanding dollar denominated debt - there is no means to finance a recovery short of hyperinflation.

According to E.F. Andrews, an analyst for the National Association of Purchasing Managers, industrialists are counting "internal financing," more euphemistically known as price hikes, to generate new capital spending.

Thus nearly every key industry, including auto, steel, chemicals and even the super-depressed aluminum sector- has announced price hikes over the last three weeks, effective the first quarter of 1976. Such price hikes will be passed on at the retail and wholesale level, raising another unsolved problem.

With unemployment at a grossly underestimated "official" level of 8 plus per cent and with workers real incomes plumetting, the so-called final demand does not exist to sustain current price levels, let alone any price increases. To underscore this point, retail sales figures released this week for the first two weeks of December showed an appreciable drop from last month's figures--and this during the height of the Christmas season. In addition, the Federal Home Loan Board announced that new savings deposoits hit a record $2.1 billion in November. This interpreted as indicating that workers are refusing to spend their paychecks -- even at Christmas time -- and put their money in the bank for "hard times."

Some analysts point to the upturn in auto and steel production as a reason for optimism. The auto companies with the notable exception of the near bankrupt Chrysler and American Motors, have announced increased production schedules for the first quarter of 1976; overall output is slated to rise to 2.1 million, up from 1.3 million for the first quarter of 1975 but downright miserable when compared to the 2.7 million in the same period in 1973.

The expansion is based more on wishful thinking than anything else. Industry analysts point to improved sales figures for the first 10 days of this month as proof of an "enormous unfulfilled demand." But these figures were the product of an emergency pre-Christmas injection of consumer credit which no one expects to continue too far into the new year. Thus the auto industry is in effect producing for inventory -- an inventory which some analysts already fear will still be clogging lots in April, as the industry shuts down its model year early.

U.S. Steel meanwhile, has also announced a projected 10 per cent production increase for the next quarter. What is the steel recovery based on? The recovery of the auto sector, U.S. Steel analysts point out. The only other factor the analysts pointed to as being behind the production increase was the canning industry's hedging on an increase in the price of tinplate scheduled to go into effect in February.

Other steel buyers, such as capital goods producers and the construction industry, certainly do not offer any support for U.S. Steel's bullish projections. Capital goods producers who saw an improvement in orders during October and November, are reporting a sharp downturn in orders during the last six weeks. Mack Truck Inc. plans to cut production by 15 per cent. The collapse in machine tool orders -- the key to any economy's ability to reproduce itself and expand -- is the most severe. Meanwhile, the housing "recovery" myth has been shattered by the report on November Housing starts -- down six per cent.

Business Week with its usual optimism, attempted to paper over these signs of impending disaster and chose to headline its article, "A Bump in the Road to Recovery." If Business Week called this a bump, observers wondered how the magazine would describe Mt. Everest.

NYS SUPREME COURT RULES THAT THE DEBT MORATORIUM IS LEGAL

A New York State Supreme Court Justice gave the New York banking community a present the day before Christmas which they would rather quickly hide in some dark closet.