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Inflation Buries "U.S. Upswing" - Industry to Choose Between Debt Moratorium and Bankruptcy

NEW YORK, June 5 (NSIPS) — A spate of news this week showed that the chimerical "consumer-led U.S. recovery," mainly based on government debt, consumer credit expansion and inventory building, has sputtered to a halt as the result of rising inflation. The continued languishing of the important construction and capital goods sectors means that they will never get a chance to contribute to the "upswing," while the fear of inflation has paralyzed the credit market, with most investors saying they are "sitting on the sidelines with a wait-and-see" attitude.

The collapse of the "U.S. recovery" chimera will have major ramifications internationally. A key selling point in Wall Street's campaign to hold balky industrialists and financiers in Europe and Japan in the Atlanticist orbit has been the claim that overseas producers could expect increased orders from what was touted as a resurgent U.S. market.

The vice-president and chief economist for Fidelity Bank, a large Philadelphia bank, noted in an interview this week that there is a "very dramatic contrast" between the views of U.S. industrialists and Wall St. on the issue of inflation. Every industrialist he has spoken to recently expresses great fear of inflation breaking out at a very high level at any moment, while all one hears from Wall Street, he says, is a religious view that inflation is under control.

The industrialists report to him that they are under tremendous cost pressure, a fact amply attested by the latest 7 to 8 per cent price hike for structural steel announced by U.S. Steel and other producers Friday, despite the fact that there is no demand for structural steel due to the collapse of capital spending and construction. Furthermore, he said, industrialists indicate that they are unable to expand production without further price increases since, not having put any plant and equipment in place since 1970, they can only bring on-line high-cost, obsolete machinery.

U.S. industrialists are at a crossroads. The bankrupt dollar financial system is unable to provide financing for anything (see International Markets Newsletter), including the massive U.S. corporate debt, as the June 30 quarterly payments date approaches. If industrialists support Wall Street's opposition to debt moratoria, they can expect to have only their internally generated cash to rely on to stay in business in the third quarter, which means massive price hikes and cannibalization of labor and plant and equipment. This — at the same time as Wall Street austerity demands are drying up markets both internationally and domestically — is an obvious dead end. With the "recovery" laid to rest, it should rapidly become obvious to U.S. industry that there is no basis for expanded trade and production, or even for averting a catastrophic collapse in present levels, without sweeping international debt moratoria.

Retail Sales Drop

Retail sales, following a slight decline in April, slipped further in May. Sales reports issued Thursday by the largest retail chains showed much-reduced gains from 1975 levels in comparison with gains in preceding months. In devastated New York City, retail sales in May fell 7.6 per cent below their year earlier level without adjustment for inflation. The chairman of Sears blamed the poor performance on bad weather, while the president of J.C. Penney's claimed an "increase in auto sales took business away from other retailers."

To this, the chairman of investment policy at Goldman Sachs, a leading New York investment bank, replied: "that slowdown in May retail sales was due to more than bad weather and it created fear of escalating inflation." As for auto sales, rather than crimping other retailers, they were down again in May, with a 8.7 million annual selling rate compared to 9.0 million in April and 9.3 million in March.

As reported last week, according to the Conference Board "consumer confidence" has fallen drastically in response to fears of renewed hyperinflation, with buying plans for cars and other big-ticket items at the lowest level since the depths of Spring, 1975. Inflation fears were exacerbated this week by the report that food prices rose 4.2 per cent in May, the largest monthly rise since the 5.6 per cent increase in November, 1974, according to an Associated Press market survey.

The slowdown in auto sales is expecially significant. Auto sales, based on consumer credit-expansion, were the key to the mild upswing in U.S. industrial production. According to the vice president and economist of First Pennsylvania (who disputes the healthy picture of the U.S. economy reported in the press by noting that "continuous downward revisions of monthly statistics go almost unnoticed"), once auto sales are removed from the picture "we find the rest of the economy on much poorer footing."

Commerce Department reports show that manufacturers' inventories fell slightly in April after adjustment for inflation. According to the Commerce Department's chief economist, inventory accumulation in the second quarter will not be as strong as in the first, when it supplied the most important impetus to the reported rise in GNP. At the same time, he also noted that he "wouldn't be surprised to see high retail inventories in April and May," reflecting the fact that retail sales have "plateaued."

Construction

Private construction outlays declined 2 per cent in April, with private nonresidential expenditures, i.e. plant for industry, etc., falling a very large 9.7 per cent, according to the Commerce Department. When the effects of inflation are discounted, private construction outlays in April were a full 20 per cent lower than 1972-73.

Advance Mortgage Corp, the mortgage banking subsidiary of Citicorp, reports in its monthly survey that the six month-long trend of declining mortgage rates on apartments and commercial properties has halted in the past thirty days.

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According to the survey, this means that "hopes for early recovery in apartment construction have been set back." Last week the Dodge division of McGraw-Hill noted that "the housing cycle has gone about as far as it can until there is some improvement in the still dormant apartment market." Housing starts have fallen from a seasonally adjusted annual rate of 1.55 million in February to 1.37 million in April.

The Advance survey blames the current sluggish mortgage market on the declining prices on corporate bonds and the steady climb in the federal funds rate, which is "giving rise to new fears of disintermediation," i.e. a flight of deposits from savings institutions, the prime investors in mortgages, as investors buy higher yielding short-term Government securities.

Capital Goods

With outlays for plant and equipment sagging, the bellweather machine tool industry reported a 8.6 per cent decline in new orders in April, according to the National Machine Tool Builders Association. The Machine Dealers National Association also reported that sales of used machine tools were down 10.7 per cent in April.

Expenditures on new equipment are so low, and equipment prices are so inflated, that many economists, including those at Goldman Sachs and Fidelity Bank, feel that the Federal Reserve Board index of industrial capacity utilization is understated because, by using simple trend-line extrapolation, the Fed is estimating capacity to exist which simply isn't there. Fidelity's economist notes that this would help explain why "productivity," measured by the government incorrectly as simple output per manhour, is much lower today compared to comparable periods following the 1954, :58 and '61 recessions.

The only major new plants recently announced will be financed purely through swindles of the type made notorious by Nazi financier Hjalmar Schacht. For example, Volkswagen said this week that it would produce autos at a New Stanton, Pennsylvania plant-shell which is currently owned by Chrysler. The state of Pennsylvania will provide $100 million in loans and grants to Volkswagen, which will only put up $55 million of its own. Pennsylvania Governor Milton Shapp says he will try to get the Pennsylvania School Employees Retirement Fund to finance the purchase of the plant, at $20 to $25 million. The local town will funnel $3.2 million of Federal manpower training funds to VW.

The news that the official unemployment rate for May fell to 7.3 per cent from 7.5 per cent the two preceding months was hailed in front-page headlines by the New York Times and other Rockefeller-press outlets looking for some tidbit to keep alive the recovery myth. However, new claims for regular state unemployment rose about 13 per cent from late March to the week ending May 22, and the Conference Board help-wanted index was off 3 points in April and is 17 points below the level of April, 1975. Moreover, even the New York Times noted that the small reported unemployment decline was concentrated solely in women, who primarily work in service industries and that unemployment among adult men, more heavily represented in manufacturing and construction, remained unchanged.

In reality, the decline in unemployment appears to reflect the decline in the number of people receiving unemployment benefits, off by over one million since late March, and 1.6 million since late February, who are no longer counted as "unemployed" by the Labor Department. Many of these are workers who were laid off in the fall of 1974 and early winter 1975, as the recession began, and have exhausted their "extended" unemployment benefits; others have been thrown off the rolls as extended benefits are shut off in states where unemployment "declined" because many workers exhausted their benefits and had to go on welfare. Since the one million increase in the number of employed reported would barely absorb the number of persons who lost their unemployment benefits, not including the number of new persons entering the work force, this, taken with the fact that the Labor Department reports that the civilian labor force did not increase from April to May, is a sure indication that more jobless workers have "disappeared" from the Department's figures.

The other bit of "good news" that was latched onto by the press was the reported drop in the rate of increase of the wholesale price index, from 0.8 per cent in April to 0.3 per cent in May. This one month decline, insignificant in itself, was mainly due to a sharp slowing in the rise of farm products prices to a 0.6 per cent gain in May, down from a 4.2 per cent rise in April, a fluke that no one expects to continue.

If the wholesale price index is broken down into components, the prices of crude materials less food rose at an annual rate in excess of 20 per cent in both March and April. These prices have not yet been passed on into the intermediate or final product stage. They are generating tremendous cost pressures, though, which manufacturers, faced with sagging markets, are reluctant to pass on in the form of price increases. The steel price increase this week, the second in two months, (and still insufficient to cover costs, according to the companies) and price increases announced by several other companies, including Western Electric and St. Regis Paper reflect this pressure.

Interest Hikes Continue

Financially, the week started poorly and ended worse as interest rates continued to rise. Friday's announcement by Citibank that it was raising the prime rate to 7.25 per cent, its third consecutive weekly 1.4 point rise, sent the stock markets tumbling, with the Dow Jones falling 9.90 points to its lowest level in three months. The Dow has now fallen 36.81 points over the past six weeks.

Thursday's banking statistics released by the New York Federal Reserve Bank showed that commercial and industrial loans rose for the second consecutive week, by $439 million, putting further upward pressure on interest rates, as it seems debt-strapped corporations may have to resort to loans in the future. Market speculation was that still further increases in the prime rate might be in store next Friday.

The mood of the markets was best summed up by the chief trading analyst of one Wall St. firm who was quoted as saying "fear, rather than optimism has become the driving force in the present investment policy of many large investors." A bond market analyst added that "the merest hint of tightening by the Federal Reserve could send rates skipping up once again."

Yesterday, President Ford publicly claimed credit for producing this U.S. "upswing," to the consternation of his industrialist supporters. With all his Democratic and Republican opponents controlled by Wall Street and therefore unwilling to challenge the President's wild claim, the U.S. Labor Party's Lyndon LaRouche is, at present, the only candidate seriously addressing the issue of the economy.