Business Briefs

Transportation

Shipments forecast down 2 percent for April

The Distribution Index, published by *Distribution Magazine*, a publication for corporate traffic managers and shippers, forecast a 2 percent decline in shipping, warehouse space utilization, and inventory valuation by April from February's index (1976 = 100) of 112.5. Rail and water shipments were predicted to fall 3 percent reflecting the continued depression in fertilizser and chemical production, while air shipments are expected to increase 1 percent as shippers keep inventory tight.

The magazine concludes, "The Distribution Index tells us managers are skeptical about the impending recovery. As one distribution manager stated, 'My firm has been hearing recovery for the past three months and very little has occurred to affect our business. When my shipments pick up, I will believe it.' "

International Credit

Mexico misses payment on debt interest

Mexico failed to make its March 10 $90 million payment on private-sector interest arrears, two banks sources confirmed to *EIR* on March 25. Mexico has been forced to resort to making interest payments on its interest payments, in a situation where international banks have been insisting that Mexico make good on the 1982 arrears on private-sector interest payments as a key "test case" of the nation's ability to meet broader packages of renegotiated debt.

The Mexican government had pledged in January that it would begin regular monthly installments to repay the some $1 billion that had fallen into arrears. The money was to come from the "open market" peso operations, which involve trading of pesos at the phenomenally undervalued rate of 150 to the dollar. The fact that in only the second month of the agreement, not enough dollars could be obtained from these open market transactions even at these undervalued rates, means that pressure for a new devaluation is building.

Other demands on that "open market"—such as a percentage of vital imports—are also not being met. A knowledgeable banker reported March 25 that Mexico's imports for the first quarter were in fact just $1.4 billion—an annualized rate of $5.6 billion, or less than one quarter of Mexico's imports just two years ago. Although this estimation is probably a low one, the drop in Mexican imports demonstrates the effects the IMF policy of imposing conditionalities will have on both Mexico and its trade partners.

Trade

U.S.-Japan friction heats up again

Recent moves by the Reagan administration and Democratic congressmen indicate a much stricter stance against Japanese imports to the United States. U.S. trade representative William Brock has, according to the *Wall Street Journal*, won the agreement of other top administration officials on an interim plan to pressure Japan to "voluntarily" limit its machine tool exports to the United States. The administration has decided against the petition of the Houdaille machine tool company for denial of investment tax credits to purchasers of Japanese machine tools, but the petition is being used as a lever for "voluntary restraints." Japanese machine tools, while taking larger shares of the U.S. market, are plunging sharply in absolute terms because of the drop in U.S. investment.

In addition, Undersecretary of Commerce Lionel Olmer told the press the last week of March that he was pessimistic about the chances of getting Congress to lift the embargo on export of Alaskan oil to Japan, according to Kyodo press.

Senator Don Riegle (D-Mich.) has introduced a bill to restrict Japanese car imports to only 1.28 million units in 1984 and 1985 (against a 1.68 million quota in 1981-83 and almost 2 million in 1980), and to curb the Japanese share of the U.S. market to 14 percent in 1986-87. U.S. Trade Subcommittee Chairman Sam Gibbons, visiting Tokyo in mid-March, urged MITI Minister Sadanori Yamanaka to reverse Japan's industrial policy of subsidizing certain industries. Yamanaka denied that the government used money to promote industry; instead, he said, it gives visions of directions to follow.

Agriculture

U.S. exports show a decline

U.S. agricultural exports are down in volume and price for the second year in succession, declining 18 percent from the 1980-81 record level of $43.8 billion. Exports are expected to decline even further this year.

Two of the largest importers of U.S. agricultural products, China and the Soviet Union, have made large cuts in their purchases.

China, a $2 billion market for agricultural goods, has taken only the minimum amount of products under the present agreement with the United States, and will fill its additional grain requirements from other exporters. China purchases significant quantities of U.S. cotton and soybeans, and is the largest market for U.S. wheat in the world. However, in response to the quotas the administration imposed on textile imports in January, China announced it would place no new orders for any of those commodities.

The Soviets, after their regular session of consultations with the United States in Moscow, agreed to purchase 100,000 metric tons of corn, though traders had expected

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them to buy as much as 500,000 tons of corn and about the same of soybeans. The Soviets to date have purchased only 6.1 million metric tons for the marketing year ending Sept. 30, compared with year earlier purchases of 7.8 million metric tons, just complying with the minimal agreement. The United States has offered to sell the Soviets as much as 23 million metric tons.

Pressure from Congress to persuade the President to negotiate another long-term agreement is already coming from Sens. Bob Dole (R-Kas.) and Charles Percy (R-Ill.).

Banking

Baldwin-United: new phase in defaults

The likely bankruptcy of Baldwin-United, the Cincinnati-based financial holding company, sometime during April presages a new phase in the record bankruptcies hitting the U.S. financial system.

During 1982, 43 banks defaulted in the United States; this year, it is broadly expected that more failures will occur than during the record year of 1940, when 46 banks went under. Baldwin-United is in default on $900 million in short-term, and over $100 million in medium-term debt to a wide array of financial institutions. The gravity of its problems came to public light after the failure last winter of United American Bank of Knoxville, Tennessee, which had entered into a large participation in Baldwin-United.

Some of Baldwin-United's creditors are better prepared for the firm's likely failure than others. Among the loans owed, at least half are collateralized against shareholdings in Baldwin-United's top subsidiary, the MGIC mortgage insurance corporation. Despite the slump in housing construction, MGIC is widely viewed as a highly successful financial enterprise, and the creditors who have issued these collateralized loans are apparently more than ready to acquire MGIC shares and see Baldwin-United go under.

MGIC is the primary insurer of mortgages not eligible for federal guarantees. It was sold to Baldwin-United in 1982 by its founder Max Carl for $1.2 billion. Rumors are circulating that Carl may now be convinced by creditors to reassume control of the firm.

U.S. Economy

An indicator for April fools' day

The Commerce Department Index of Leading Economic Indicators for February released March 30 showed a 1.4 percent increase over January.

Said Donald Regan, U.S. secretary of the Treasury, "The rise in February provides further confirmation that the recovery is well under way. This latest signal should provide further confidence that the recovery will be both solid and sustained."

The 7 (of 10) indicators that rose were led by the increase in money supply (still going up at 15 percent a year). Other increases were slower freight deliveries caused by February storms (slower deliveries are a positive sign in the index), more new business formations (business failures were eliminated from the index last year), higher stock prices (Morgan Guaranty and friends are still building the market), increased building permits (how many basement alterations, how many power plants?), rising sensitive raw materials prices (in December, the index dropped crude petroleum prices, which were declining, and substituted lumber, which was soaring), and a drop in initial unemployment claims (they went right back up in March).

Three indices declined: average work week (the January figure was a statistical fluke, the month-to-month change is meaningless); new manufacturing orders (the 2.2 percent decline from January to February 7 indicates recovery never occurred), and capital goods orders down (the 7.2 percent decline for non-defense capital goods proves no recovery ever occurred).

Briefly

● **THE NATIONAL** Association of Purchasing Managers issued a survey for April titled: "Economy continues improvement." The U.S. association states that the "Purchasing Manager's Composite Index registered 54.7 percent in March, a change from 56.6 percent in February." While such a change might appear as a decline to most observers, the association reports that 51 percent of its members said they were optimistic (up from 25 percent in November), 11 percent were "worried or pessimistic" (down from 21 percent in November) and the number who "felt concerned" dropped from 54 percent to 38 percent. The association's survey is widely quoted in the press.

● **TAROT CARDS** are being used to predict the future of Brazil's economic crisis. Both a São Paulo card reader and a Rio de Janeiro mystic have predicted a debt moratorium. Hudson Institute chief Herman Kahn, apparently another ball-bazer, said while visiting Rio March 29 that the U.S. economy is returning to normal "as an evident symbol that all the middle countries, including Brazil, will soon escape the crisis."

● **HANDELSBLATT,** the German business daily, acknowledged the existence of the Ibero-American debtors' cartel in its March 24 editorial. The article, headlined: "Latin American Payments Crisis—a Debtors' Cartel?," reports that, "With Ecuador in the lead, some Latin American countries have discovered a supposedly sure way out of the still explosive payments crisis. . . . They are demanding a general moratorium on payments of principal for 1983, rescheduling other categories of debt for six years, with a grace period of at least three years, lower interest rates on rescheduled debt, and lower interest rates on new credits, along with massive new credit issuance. . . . Euro-bankers may be somewhat relieved that the demands are so modest. . . ."