Domestic Credit by Leif Johnson

Consumer sector steel orders plunge

This may be the end of the 'inventory-led recovery'; the impact of unsold consumer durables remains to be seen.

Steel orders for March dropped 26 percent from February levels, according to Peter Marcus, one the nation's leading steel market watchers. According to his preliminary figures, the loss in orders came almost entirely from the consumer durable sector while capital goods, the major user of steel, remained flat.

Of the 90 million ton annual rate of steel orders in February, 42 million tons came from the consumer durable sector says Marcus, who tracks orders, shipments, and prices of the seven top domestic steel producers. In March, consumer durables steel orders collapsed 50 percent to about 20 million tons, thus accounting for about 80 percent of the total 26 percent drop in overall steel orders from February to March.

April steel orders are not yet available, but the March figures clearly point to the end of the inventory accumulation in consumer durables.

If the inventory-led "recovery" of January to March is at an end, the mixed industrial production and orders numbers indicate serious dangers in the short-term economic future.

Personal consumption in the first quarter of 1983 rose by 0.6 percent, about half the increase recorded in the fourth quarter of 1982. This slowdown in consumption is due to the huge unemployment overhang in the economy.

An economy going nowhere and primed for some serious trouble soon produces odd shipments and orders figures. The underlying capital goods sector is in very serious doldrums. Machine tool orders finally showed a month-to-month rise to $126 million in March, but shipments continued to run at more than twice that amount, and the industry now has only five months of order backlog before it simply closes its doors. Shipments for the industry's first quarter 1983 ran 38 percent below its abysmally low year-earlier figure.

Steel shipments to capital goods industries remained absolutely flat during the first three months of 1983, while business equipment sales, which make up one-eighth of all industrial sales sank 2.7 percent from November (supposedly the bottom of the "recession") to March, posting a 14.8 percent decline for the year.

Other figures seemed to move in contrary directions.

Auto production remained relatively high in April at 527,700 units, while single family home starts bounced up to a 146,000 annual rate in March from the very depressed 94,000 in the first two months of the year. (As *EIR* had predicted, this created a drop—9 percent in this case—in the rate, due to seasonal adjustment.)

High auto production is being maintained simply because the manufacturers insist on overbuilding, as they have been doing for four months. As in housing, they are forcing production in advance of a predicted shutdown. The much written about 3.5 percent increase in manufacturing durable goods orders in March is an uncertain sign. The March recovery matches exactly the February decline in orders.

Construction spending as a whole (residential, commercial, and industrial, and public works) slipped 1.6 percent in March after turning down 2.9 percent in February but rising 6.0 percent in January. The bright spot in construction is residential housing; the dark side is commercial and industrial building, down 19 percent from 1982 levels, and public works, which is being saved from precipitous decline by the rebuilding of the Tampa Bay bridge.

Price erosions in finished and intermediate industrial goods reflect the extreme sluggishness in this year's first quarter industrial demand. Manufactured finished goods prices (excluding consumer foods) rose 3.8 percent last year, but fell 1.4 percent in the first three months of this year. Intermediate manufactured goods posted a very small 0.6 percent increase in 1982 but a sharp 1.4 percent dip in the first quarter 1983.

Crude materials prices seemed to firm in 1983 after heavy drops in 1982, but much of this came from crude oil price declines. Other crude prices (excepting food and feedstuffs) showed a mixed pattern: iron and steel scrap, aluminum scrap, raw cotton, and rubber rose, but copper scrap and wastepaper prices fell.

The figures are not simply "inconclusive." They show there is no generalized recovery nor an all-out collapse.

The question now is how the economy will respond to a serious consumer durable inventory overhang under the burden of record high real interest rates.