Housing down, economy next

Excessive credit and looting of other economies is not a formula for sustained growth.

November figures for new, single-family home sales, the most basic measure of the industry, indicates that a violent storm is now gathering over the U.S. economy, one which will wash away the appearance of "recovery" over the past 18 months.

November sales of new family homes fell 10.6% compared to October, the Commerce Department reported Jan. 3, to a seasonally adjusted annual rate of 591,000. This is 7.1% below the level of November 1983.

Through the first 11 months, sales of new one-family homes totaled 601,000, up a scant 4.3% from 576,000 during the same period in 1983. The last few months of depressed housing sales have wiped out almost the entirety of the earlier increase.

The 10.6% drop in new home sales in November from October levels is the largest single month drop since the 18.4% drop in January 1982, which ushered in 1982's sharp economic decline.

It is possible that the President himself knew of the November home-sale figures in advance of their release, and that this led him to put pressure on Federal Reserve Board chairman Paul Volcker, resulting in Volcker's recent additions of liquidity to the banking and credit systems.

Were new housing the only significant sector to be hit, one might give in to the temptation to dismiss its troubles as a mild aberration.

But what about steel? "1985 is shot, 1986 becomes the hope," is the painful analysis proferred by Paine, Webber's steel analyst, Peter Marcus; 1984 finished-steel production was a disaster: only 73 million tons, versus 67.4 million tons in 1983—against 100 million tons in 1979. These are not "recovery" figures.

Steel production tonnage in the fourth quarter fell to 17 million, or only 68 million on an annualized basis. Prices collapsed for the industry in the second half of 1984. Spot steel prices dropped 15%. Cold rolled steel dropped from $470 a short ton to the range of $380 to $420. There is extreme concern that Wheeling-Pittsburgh, one of America's Big Eight steel makers, will collapse this year.

The employment situation also worsens. The initial claims for state unemployment insurance rose to 405,000 for the week ended Dec 22. This is the fourth consecutive weekly rise. Its level was 360,000 four weeks ago.

What this situation demands is a re-examination of how the U.S. economy has functioned. Other articles in *EIR* document that the U.S. so-called "recovery" of the latter part of 1983 through most of 1984, was generated by three processes: 1) a strong U.S. dollar's looting of manufactured goods from the rest of the world; 2) faked government statistics purporting to show growth increases; 3) excessive consumer and to some extent business credit.

The expansion of credit, to some extent, lifted the United States off the floor of the depression of 1982-83, without effecting any fundamental change in the economy. Reflective of the growth of consumer credit is that consumer installment-credit outstanding, as a percentage of personal income, rose from 13% in November 1982 to 14.7% in September 1984. This rivals the ratio of 14.9% prevailing in early 1980, which Fed chairman Volcker cut to pieces by imposing credit crunch in March of that year.

The growth of business credit, when yearly figures are complete, will likely prove unprecedented. Business loans of commercial banks surged by $27 billion during 1984 through mid-December, and corporate commercial paper rose by $50 billion—a combined growth in short-term corporate credit of $77 billion.

Corporations did not convert short-term into long-term debt; they lived for the moment, getting their kicks and short-term gains while they could, using the borrowed monies for, among other things, leveraged buy-outs, mergers, buying into the stock market, etc.

The giddy atmosphere of 1984 is waning. Only the tremendous credit-expansion, including sizeable amounts of housing credit, added onto the overly cheap purchase of goods from the rest of the world, produced modest increase in selected categories of U.S. economic output.

Otherwise, most of the growth was cancerous in nature—in the financial sector of the economy, white collar occupations, and so forth

Leading economic indicators can bounce upward for a few more months; factory orders for some durable goods, particularly defense related, may show some encouraging signs. But excessive credit and looting of other economies is not a formula for sustained growth.