Domestic Credit by EIR Staff

Leading indicators of *what?*

"Economic activity" is up, say latest government figures released in February. Who's kidding whom?

The especially insane ideologues of econometric forecasting got a boost the first week of February, with the release of the U.S. government's "Leading Indicators of Economic Activity." The December numbers, and the adjusted November numbers, give, it is said, good grounds for optimism that the economy is entering 1987 on what is called "a strong note."

Others might well step back in shock, that even while the economy continues to collapse in ruins, the government could continue to publish statistical series which maintain the reverse.

The government series registered a 2.1% jump for the month of December. This is the biggest rise since January 1983, and the third increase in a row. Some, like Sara Johnson, chief economist at Data Resources Inc., said that the three sequential gains mean that the economy "is clearly moving ahead."

As a result of the leading economic indicators' increase for December, it is now projected that the government's basic measure of economic growth, the Gross National Product, will also show an increase for the year. This is expected to be around 2.5%. At the start of 1986 the government's economists anticipated that GNP would grow by 4%.

EIR estimated in the first quarter of 1986, that the U.S. economy would decline over the course of the year, by a further 15-25% from the market-basket consumption standards of the late 1960s. Led by the steel industry, the construction sector, and the automotive industry, the economy *did* in reality go into that earlier-identified accelerated decline.

It evidently wasn't enough to convince the people who decide what the minions in various government departments ought to be saying, that the fabled "strongest sustained surge of economic growth since the end of World War II," was anything but a fiction.

Now, even as the government continues to pump out its phony data, the performance of basic sectors of the economy continues to conform to the pattern *EIR* projected at the beginning of 1986. The collapse that occurred, in two phases, during 1986, is now beginning to show up more broadly.

Take the case of the automobile industry. Incentive programs kept up the appearance over the months before November's elections that the industry was doing fine. In October, almost all of the reported 2% growth in GNP was accounted for by auto sales. GM incurred a loss of $300 million for the quarter by subsidizing those sales, even while GNP grew. Right after the elections, GM terminated the incentive program and announced a program for plant shutdowns over the next five years.

Auto industry results for January were published as the government's indicators came out. Car sales in the last 10 days of January, when incentive programs were back in effect, for some producers and imported models, were 26% below the level of the same 10-day period the year before. Car sales for the month of January as a whole were 33% below the level of January of the year before. The annualized rate of sales was below 6 million, compared to over 9 million one year ago. Not since the so-called recessionary cycle's trough of 1982 has the automobile sector performed so abysmally.

It's not only that the figures themselves portend catastrophe. It's well known that imported automobiles took over more than 25% of the internal market since 1982. January's figures, for the first time, also show a decline in sales of imported cars of leading producers. And this decline was registered in the same magnitude as the decline in sales of American produced vehicles. Sales of Toyota imports were down more than 35%. Honda was down 29%. Audi and Volkswagen were down by 60% and 50% respectively.

During the fall incentive sales program, it was argued that the auto producers were building up a steeper decline for the early months of 1987. This year's sales were taken early to extract maximum advantage from the "incentive" programs.

Now the market is no longer there, neither for the domestic product, nor for its imported compettiion. The market is no longer there because households and individuals cannot any longer afford to buy automobiles at the rate of 300,000 per month. Contrary to what the government's "leading economic indicators" assert, they are the victims of the ongoing worsening depression.

The producers are also maintaining inventories for over 100 days of sales, against a usual January level of about 74 days. In short, more auto production cutbacks are coming, quite soon, to bring production into line with the depression-shrunken market. The government will probably find some way to account for that as growth, too.