

INTERNATIONAL MARKETS NEWSLETTER

U.S. Upswing

The treasury office of the General Motors Corporation indicated Thursday that not one penny of its planned \$2.6 billion 1976 spending program has yet been allocated. The GM official cited as a reason for the company's procrastination to a New York-based auto-industry analyst that most of GM's assembly plants are still operating on a single shift.

Only three weeks ago when the ambitious retooling program was first announced, the international press had played it up as a key indicator of business confidence in the strength of the U.S. recovery. Middle level management officials, who monitor the day-to-day operations of corporations, however, likely found the announcement a fraud from the start. Their ledger sheets already show a backlog of unsold inventories. However, while marketing "experts" were churning out surveys about increased car sales based primarily on phoney government indicators and wishful thinking, industry sales reports remained basically flat.

Yet GM and Ford continue to publicly insist that the recovery is here. On Feb. 26, industry spokesmen announced that they were bullish on sales prospects and planned to produce 823,000 new cars during the month of March — or a 23 per cent increase over last month's figures. The stated intention of the production increase is to add some 100,000 cars to dealer inventories next month. Yesterday's Wall Street Journal attempted to imply that there was some reason behind these inexplicable actions: "Detroit's strategy, industry analysts say, is to make sure that there are enough cars on hand in dealerships to match the expected sales pickup that normally occurs in Spring." Dealer inventories however have been doing alot of multiplying on their own since few people are now buying new cars. Inventory backlogs were already \$1.4 million on January 1, will now with the new addition be a whopping 1.7 million.

But as competent middle management personnel should already realize, there is not going to be a "normal spring sales" pickup because this is by no means a "normal Spring." The only reason that sales had gone up at all last fall was a massive injection of consumer credit through the extension of auto installment loans (\$3.2 billion in new loans last March increased to \$4.2 billion by last December). There is only so far that the industry can be carried on such credit buying — and as many analysts realize, it has already reached its outer limits.

One analyst at a leading New York commercial bank, commenting on the fact that auto dealers are now extending loans of up to 48 months maturity to increase sales said that this sort of huckstering was associated with what the industry called the "lunatic fringe in the 1950's." Another, after ranting over the Wall St. Journal's "straight" coverage of the poor state of the industry, claimed that he knew the industry could be faced with a huge inventory glut if the sales bubble burst. He insisted however, that nobody could predict if this was indeed going to happen.

But even more trouble is in store for the U.S. auto industry, shortly. Foreign car dealers' inventories increased by an incredible 100,000 cars during January, bringing the total

supply of foreign cars on hand to the equivalent of 120 days of sales (60 days is considered optimal). This piling up of inventories accounted for the entire increase of auto imports in January. (Since these auto imports were a key factor in preventing the collapse of the Japanese, W.German and related European economies, the upcoming bust of the U.S. car market will have devastating effects.)

The huge supply of cars will immediately force foreign dealers to attempt to regain at least a portion of their rapidly dwindling share of the U.S. market through price-cutting, loan maturity extensions, etc.

Durable Goods Orders Hoax

The press, meanwhile, played up figures released by the Commerce Department Feb. 26 that allege that durable goods orders rose last month by 2.3 per cent. As is the case with most government figures, to the extent that they are not outright lies they are totally deceptive. In this case, the figure is a little bit of both.

The reported rise, which was less than \$1 billion in total dollar amount was more than accounted for by a rise of almost \$1.2 billion in machine orders. \$600 million of the latter increase was credited to new orders for communications equipment — an almost 100 per cent rise in last month's figures.

But where are such orders going? No one seems to know — which opens for speculation the possibility of deliberate fraud by Commerce Department officials. Even the most ardent proponents of the recovery hoax usually admit that no one is really spending anything on new plant and equipment or replacement of broken down equipment — a fact attested to by the aforementioned GM disclaimer on its billion dollar retooling program. George Christie, Vice President and the chief economist for the Dodge division of McGraw-Hill admitted as much Feb. 26 when he reported that "the critical upturn in commercial and industrial building had yet to materialize."

The reason behind the continued weakness of demand for industrial machinery was underscored by a McGraw-Hill report issued Feb. 27 which produces the most reliable statistical indicators on machinery, that U.S. industrial firms operated at only 73.5 per cent of capacity during January, the same rate as December. (This would also tend to indicate that the rise in industrial production in December and January reported by the Federal Reserve Board is solely based on speed-up of the workforce since capacity utilization has not increased.)

Consumer Income and Retail Sales Collapse

The actual weakness of U.S. industry was highlighted by reports of the continued collapse of consumer income. On Feb. 25 the Labor Department reported that the hourly wages for factory workers remained unchanged from December to January. This translates to a 10 per cent drop annually when the effects of inflation are taken into con-

sideration. The next day the Commerce Department reported that per capita disposable income barely increased from the third to the fourth quarter of 1975.

This underlying weakness of consumer demand has made the retail industry itself extremely pessimistic, despite the spate of newspaper headlines about retail sales pickup and consumer confidence. One analyst quoted in the Feb. 25 New York Post noted that retail stores are not increasing inventories for fears of being caught in an overexposed position when the euphoria breaks. This indicates that some business management personnel, who, unlike press conduits of the "recovery" lie have at least a minimal "bottom line" connection to reality, are not taking the "recovery" seriously. Another analyst, who correctly predicted the 1974 inventory collapse, noted the flatness in retail sales and said that this could not continue for very long prior to sales turning downwards. (Sales have already turned downward as January figures show.) A third analyst reported to the extent that retail sales have not already collapsed, it is almost solely attributable to the fact that stores are literally pushing their merchandise out the door — at cut rate prices. Industry sources note that this leaves particularly the weaker stores in precarious positions. The ones who can't compete will be forced out of the shrinking market. One such marginal chain, W.T. Grant's has already been deliberately bankrupted and indications are that other retailers will soon be forced by cut throat pricing practices to follow.

The Paper Boom

But the government waited until the week's end to attempt to play their biggest trick on the gullible. After six months of flatness, the index of 12 leading economic indicators showed a sharp rise — 2.7 per cent — last month the government economist announced. A closed examination of this so-called rise shows it to be a paper hoax. Discounting for the moment the fact that previously announced rises in the indicator

index over the last months were later revised downward a few weeks later, the figure nonetheless "proves" that the only booming "sector" of the nation's economy is stock brokerage houses — the pure paper speculation. Last month's jump in the Dow average produced a 10 per cent rise in the portion of the index that deals with the stock values. Had this speculation not taken place there would likely have been a slight rise, which again would have disappeared after certain inexplicable readjustments were made.

The "Boom" In Bonds

In addition to the stock market, the bond market also became a temporary haven for speculative funds this week. This occurred despite the fact that investors expected interest rates to rise and thus their bond prices to plummet. This seemingly illogical behavior is accounted for by the following: with the collapse of industrial production and hence productive investment outlets, the pool of funds which the Federal Reserve has been pumping into the economy is willing to risk high losses in desperate efforts for short-term, quick speculative profits.

The Federal Reserve Board, fearing the speculative fever, which, rather than an actual "recovery," is the reality of the U.S. economic situation today, moved to tighten credit toward the end of the week. As a result, the stock market fell 22 points Feb. 26 and Feb. 27, while the government and corporate bond market fell 20 to 25 basis points Feb. 27.

The rapid fall in the stock and bond markets in response to the Federal Reserve's mild moves indicates the bind that Wall Street financiers are in. Any attempt to control the speculative credit expansion threatens to collapse the entire structure, yet supporting the system through credit infusion merely aggravates the speculative and inflationary tendencies. This dilemma will be reflected in continued crises of the dollar financial system and almost day-by-day flip-flops in capitalist "policy" as the Wall St. Atlanticists try to "square the circle" between hyper-inflation and collapse.